REPORT

OF THE

Indian Tariff Board

REGARDING THE

GRANT OF PROTECTION

TO THE

COAL INDUSTRY

CALCUTTA: GOVERNMENT OF INDIA
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1926

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	Rs.	A.	P.
(1) Salaries of members and staff	42,790	2	0
(2) Travelling allowance (including daily allowance)	7,060	6	0
(3) Printing	2,270	0	0
(4) Contingencies	1,038	3	0

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MAJORITY REPORT.

CHAPTER I.

Introductory.

The question referred to the Board.

In the Resolution of the Government of India in the Commerce Department No. 47-T. (49), dated 30th September 1925, the Tariff Board were directed to examine the question whether a protective duty should be imposed on imported coal. The Resolution reads as follows:—

"In accordance with the statement made in the Legislative Assembly on the 15th of March 1924, the Government of India have now decided to refer to the Tariff Board for investigation the question whether a protective duty should be imposed on imported coal generally or on coal imported from any particular country or countries, and, if so, at what rates.

Firms or persons interested, who desire that their views should be considered by the Tariff Board, should address their representations direct to the Secretary, Tariff Board."

The proposals of the Indian Mining Federation and the Board's Communiqué.

2. As soon as the Resolution reached us, we invited the Indian Mining Federation, the body which had taken the lead in advocating protection for coal, to submit a statement of the proposals which they desired to put forward. In response to our invitation the Federation drew up and submitted, on the 28th October 1925, a memorandum explaining at length the measures which they recommended and the reasons which were held to justify them. The proposals made were as follows:—

(1) The imposition of protective duties at the following rates:—

(a) Rs. 5 a ton on coal imported from South Africa;

(b) Rs. 10 a ton on coal imported from any other country;

(c) Half an anna a gallon on imported fuel oil.

(2) The grant of a bounty of Rs. 3 a ton on coal exported to foreign countries.

We were of opinion that the proposed duty on fuel oil and the proposed bounty on exported coal were beyond the terms of our reference, and we informed the Federation that we could not consider them. At the same time we published (on the 6th November) a

Press Communiqué (Appendix I) explaining our decision, and inviting all interested in the matter to submit representations to the Board regarding the proposed duties on coal. Along with the communiqué we published also the memorandum of the Federation, and a questionnaire designed to elicit opinions and to clear up the facts of the case.

Proposals of the Indian Mining Association.

3. Detailed answers to our questionnaire were received both from the Indian Mining Federation and from the Indian Mining Association, while the latter body submitted also a memorandum in which their Committee reviewed the competition between Indian and imported coal in certain markets, and recommended the imposition of a uniform protective duty of Rs. 1-8-0 a ton on coal imported from all countries. This memorandum was circulated by the Committee to the members of the Association with the remark that members were fully entitled to submit independent views, if they so desired. Before the publication of the memorandum one firm—Messrs. Andrew Yule and Company—had expressed a desire to give evidence, but subsequently withdrew their request and intimated that they endorsed the views expressed by the Committee, and no other member of the Association addressed us. The claim to protection was thus put forward by the colliery owners of Bengal and Bihar and Orissa, most of whom, though not all, are members either of the Federation or the Association. The mines in these two Provinces are responsible for nine-tenths of the Indian coal output, and as the persons and firms interested in the production of coal in other provinces or in the Indian States did not approach us, they presumably do not expect to benefit from protection. The Mining Association numbers amongst its members 60 companies, firms and individuals, representing 134 coal companies, with an aggregate output of 14 million tons, and therefore voices the opinions of two-thirds of the Indian Coal industry. Similar figures for the Federation cannot be given, as our request for information on the point was left unanswered, but we understand that there are a number of colliery proprietors in Bengal and Bihar who stand outside both bodies.

Evidence tendered in favour of protection.

4. The invitation contained in our communiqué did not evoke any widespread response. The Indian Colliery Employees' Association argued that protection would lead to increased employment, or would diminish unemployment, and was therefore likely to be beneficial. The claim to protection received further support from the Bombay and Ahmedabad Millowners' Associations, the Madras Chamber of Commerce and the Indian Merchants' Chamber, Bombay. The Madras Chamber regard the rebate on export coal given by the South African Railways as of the nature of a bounty, and recommend that protection should be given to the extent necessary to countervail the unfair competition. The view of the Bombay Millowners' Association is more guarded, for while they oppose the imposition of a protective duty on all imported coal, they favour such a duty if it is applied only to coal which is assisted

by bounties or subsidies. The Indian Merchants' Chamber, on the other hand, are whole-hearted in their advocacy of protection, and desire the addition of no less than three rates of duty to the existing revenue duty of 8 annas a ton. They propose:—

(1) A duty of Rs. 2-8-0 on all imported coal to compensate for the rise in the rupee sterling exchange from 1*s*. 4*d*. to 1*s*. 6*d*.

(2) A duty of Rs. 5-2-8 on South African coal to countervail the Railway rebate.

(3) A special duty on coal imported from any country with a depreciated exchange, varying according to the amount of the depreciation.

Of these proposals (2) is considered in Chapter IV and neither (1) nor (3) need be discussed at length. We cannot approach this question on the basis that Indian and imported coal are exactly on a level when the exchange is at 1*s*. 4*d*. and that the amount of protection needed is to be measured by the fall in the rupee value of imported coal resulting from the rise in the exchange to 1*s*. 6*d*. The only country with a depreciated currency which sends any coal to India is Japan, and the quantity of Japanese coal imported is so small that its competition is negligible.

Evidence tendered against protection.

5. The opponents of protection include three firms who are interested as merchants in the coal trade, and four Chambers of Commerce (Bombay, Upper India, Burma and Karachi). The grounds of opposition are in the main that a clear case for protection has not been made out, that any measures which are likely to add to the cost of fuel are prejudicial to industries generally, and that a protective duty might injure the bunker trade. The objections to protection will be examined in Chapters III and IV, and it is not necessary to discuss them here, but there is one significant fact which deserves mention. None of the opponents of protection desired to send a representative for oral examination, and the tone of the representations did not suggest that their authors apprehended any dire consequences if a protective duty were imposed. Had it seemed probable that protection would lead to a general rise in coal prices, every possible step would no doubt have been taken to emphasise the objections to an increase in the duty.

The Board's sources of information.

6. The only witnesses examined orally were the representatives of the Mining Federation and the Mining Association for we found no sufficient reason for asking any of the opponents of protection to reconsider their refusal to give oral evidence. Many of the written representations we received, however, have been of value to us in our enquiry. Special enquiries were addressed to the Collectors of Customs regarding the bunkering of coal at the large ports, to Messrs. Tata and Sons, Limited, regarding the cost of hydro-electricity in Bombay and the new hydro-electric stations now under construction, and to the Agents of the Great Indian

Peninsula and North Western Railways, the Bombay Millowners' Association and the Chambers of Commerce at Bombay and Karachi regarding the price of fuel oil. To all of these officers, public bodies and firms we desire to record our obligations. Most important of all is the oral and written evidence of the Mining Federation and the Mining Association. We are indebted to both bodies for a prompt and willing response to many requests for information. Finally, we have made free use of the facts and figures compiled by the Indian Coal Committee and recorded in their Report, Appendices and Evidence. The question into which they enquired was not the same as that referred to us, but there is much common ground, and their investigations greatly lightened our labours.

Arrangement of the Report.

7. For the reasons explained in paragraph 8, we have found it advisable to consider first the probable results which are likely to follow the imposition of a protective duty. On the one hand, the producer may benefit by an expansion of his market and by a rise in the price of coal, while, on the other hand, the consumer may be injured if the cost of fuel is increased. These aspects of the case are considered in Chapter II. The specific proposals of the Mining Federation and the Mining Association are discussed in Chapter III. The Federation desire that a higher duty should be imposed on coal imported from the United Kingdom and elsewhere than on coal imported from South Africa, while the Association recommend a uniform rate of duty on coal from all countries. The question to be answered, therefore, is whether there are sufficient grounds for a protective duty which would apply to all imported coal irrespective of its origin. Whether that question is answered in the affirmative or in the negative, it still remains to decide whether coal from a particular country should be subjected to a higher duty than the ordinary rate. The assertion made is that the rebates granted on export coal by the South African Railway Administration are equivalent to a bounty and that the competition of South African coal is unfair. The existence of a bounty might justify the imposition of a countervailing duty even though the case for protection generally had not been established, but it is worth noting that the claimants for protection do not ask for a higher duty on South African coal. This aspect of the case is discussed in Chapter IV.

CHAPTER II.

The Probable Results of a Protective Duty on Coal.

Necessity of investigating the probable results of a protective duty on coal

8. An industry which asks for protection generally expects to benefit by a higher price for its products, or by an extension of its market, or by both. If it supplies only a portion of the country's demand for similar commodities—and this is the common case, for it is the nascent industries which stand most in need of protection—it will usually be found that prices are regulated by the cost of importation, and an increase in the import duties is followed by higher prices for goods made in the country. A second result is a wide extension of the area within which the domestic product can hold its own against foreign competition, and consequently a substantial increase in its sales. When these conditions exist no elaborate demonstration is necessary in order to show that the protection given will be fully effective. The circumstances of the Coal industry are very different. The imports of foreign coal are only $2\frac{1}{2}$ per cent. of the domestic consumption, and except in the sea-board markets most remote from the coal fields, foreign competition is negligible or non-existent and prices are regulated solely by internal competition between the Indian mines. It is impossible to assume that a protective duty will operate as in ordinary cases, and before its probable results can be predicted, the relevant facts and figures require detailed examination. It is indispensable, moreover, that this point should be investigated before the other aspects of the case are considered. It is difficult to appreciate the weight of the arguments for or against a protective duty on coal, until an attempt has been made to ascertain to what extent the producer is likely to benefit, and the consumer to suffer from the imposition of the duty. It is quite possible that a duty imposed for protective purposes may be from the first or may afterwards become, entirely inoperative whether for good or evil. It is the object of this Chapter to state clearly the important points, and to make it plain what a protective duty on coal can do for the Coal industry and what it cannot.

Questions to be examined.

9. The two questions which we have to examine are:—

(1) To what extent would the sale of Indian coal be increased by the imposition of a protective duty.

(2) To what extent would the higher duty increase the price of coal in India generally, or in particular markets.

Neither question can be discussed adequately without frequent reference to statistics, and while, so far as possible, figures have been relegated to Appendices II to VIII, they cannot be excluded altogether from the text. The attempt has been made, however, to avoid minute detail in this Chapter, and to present rather the broad results and bring out the salient points. For purposes of

comparison we have tabulated in the Appendices the figures for the four years immediately preceding the war—1910 to 1913—and the figures for five post-war years—1921 to 1925. The figures of the war years and of the years 1919 and 1920—we have excluded, because they have little or no significance in our enquiry. Shipping difficulties, which commenced almost from the outbreak of the war, intensified as the struggle proceeded, and were not effectively removed for two years after its termination. The result was an almost complete suspension of the imports of foreign coal for five years. For this reason it seemed advisable to make a direct comparison between the pre-war and post-war periods, omitting the intervening years. Occasionally, however, it has been necessary to refer to some feature of the war period in order to explain the situation which arose in 1921 and 1922.

The market for coal in India before the war.

10. In 1910 twelve million tons of coal were raised in India of which nearly a million tons were exported, and the nett internal consumption* (including bunker coal) was nearly 10 million tons of which only 3·3 per cent. was imported. Four-fifths of the imports were British coal. There was little change in 1911, but in 1912 and 1913 new features came into prominence, and both British and Indian coal lost ground to their competitors. By 1913 the exports of Indian coal had dropped to three quarters of a million tons, while the imports of foreign coal had risen from 333,000 to 858,000 tons of which less than one-third was British. Both Japan and Australia sent larger quantities of coal to India, but the most noteworthy fact was that the imports of South African coal increased from 18,000 tons in 1910 to 176,000 tons in 1912 and to 246,000 tons in 1913. It was in these years apparently that the rebate of railway freight on export coal was first granted by the South African Railway administration. An increase in the absorptive capacity of the Indian market, however, fully compensated for the decline in exports and the increase in imports. The domestic consumption in 1913 exceeded 14 million tons—an increase of more than 40 per cent. in three years—while the output of the Indian mines rose to over 16 million tons or by more than a third since 1910. It could not be said, therefore, that foreign competition had seriously injured the industry.

Conditions affecting the Indian coal market during and after the war.

11. From 1916 to 1920 the imports of foreign coal only once exceeded 50,000 tons and were therefore negligible, while the exports of Indian coal averaged 600,000 tons a year during the quinquennium. During the first years of the war the output of the Indian mines increased comparatively

* The figures given as the nett internal consumption in any year is arrived at by deducting from the coal raised in India in that year the coal exported *plus* an allowance of 12½ per cent. for wastage and colliery consumption, and by adding the imports. The re-exports have not been deducted because they consist almost entirely of foreign coal transhipped direct from vessel to vessel at Bombay and Karachi and used for bunkering. If it were possible, it would be convenient to exclude all coal bunkered at Indian ports, but complete figures are not available for any year prior to 1925.

slowly, and reached 18 million tons in 1917, but the three following years witnessed striking changes. Production soared to nearly 21 million tons in 1918 and to 22½ million tons in 1919, and then as suddenly dropped back to 18 million tons in 1920. There was an intensive and growing demand for coal in India during these years, at first for munitions and later for the new industries, which endeavoured to establish themselves during the boom period, and prices moved steadily upwards. In 1918 and 1919, moreover, the mines were raising far more coal than the railways could transport and the stocks in the collieries rapidly accumulated. In 1919 and 1920, the East Indian and Bengal Nagpur Railways despatched only 30 million tons of coal, though 37 millions of tons had been raised in Bengal and Bihar and Orissa in these two years. By the middle of 1920 industries were threatened in many places with an actual shortage of coal, and the situation was aggravated by the export of 1¼ million tons of coal in 1920. In June 1920 the Government of India felt it necessary to prohibit the export of Indian coal except under license, and subsequently at various dates in 1921 to prohibit altogether the export of coal to the Straits Settlements, to Aden and to Ceylon. Meanwhile the shortage of shipping had at last been made good, and high prices attracted to India foreign coal from many different countries. More than three million tons of coal were imported into India in 1921 and 1922, and as the domestic consumption of coal during these years was about 36 million tons, the imports supplied 8½ per cent. of the demand.

The Indian coal market from 1923 to 1925.

12. The sudden invasion of the Indian market by large quantities of foreign coal may have alarmed the industry, but it soon became evident that imports on the scale of 1921 and 1922 were a transient feature, due to entirely abnormal conditions. The imports dropped to a little over 600,000 tons in 1923 and to less than half a million tons in 1924 and 1925. The exports which had dropped to 77,000 tons in 1922 have been slow to recover, and in 1925 amounted only to 216,000 tons. Meanwhile the output of the Indian mines which had been practically stationary from 1921 to 1923 at between 19 and 20 million tons rose to an average of 21 million tons in 1924 and 1925. The nett annual consumption of coal in India is now approximately 18½ million tons of which only 2½ per cent. is imported coal. It is important to make it clear that Indian coal has for the last three years supplied a larger proportion of the Indian demand than it did in 1911 and 1912 when, for practical purposes, the only foreign competition was from British coal. South Africa now supplies about two-thirds of the imported coal and the United Kingdom a quarter (mostly Welsh steam coal for bunkering). The imports from other countries are negligible.

Imports of foreign coal only 2½ per cent. of internal consumption.

13. The brief survey of the development of the Indian Coal industry contained in the last three paragraphs will suffice to show that the demand for protection has been made in somewhat unusual circumstances. An industry which

has increased its output by 75 per cent. in 15 years, can hardly claim that it is suffering from lack of development, nor when it supplies $97\frac{1}{2}$ per cent. of the internal demand, can it argue that its hold on its natural market is seriously shaken. There is no reason for apprehending a recurrence of the heavy imports which occurred in 1921 and 1922, for the conditions which produced them have passed away. As in other countries, the price of Indian coal has fallen back to a point not far above the pre-war level, and the railways are now able to transport all the coal that the mines can sell. In these circumstances the additional market, which protection can give, is not more than $2\frac{1}{2}$ per cent. of what the industry already has. It may, however, be argued that percentages relating to the whole of India are misleading, and that though foreign competition is unfelt in the greater part of India, there are particular Indian markets where it constitutes a real danger against which measures should be taken. Of such markets there are only four, namely, the ports of Rangoon, Madras, Bombay and Karachi and the areas in their vicinity which coal can reach more easily and cheaply through the port than by an all-rail route. In the rest of India it is admitted that foreign coal cannot compete. We shall examine the circumstances at all these ports.

The market for coal in Burma and Madras.

14. The representatives of the Mining Federation and the Mining Association admitted that little was to be feared from foreign competition in Madras and Burma* and it will suffice to state succintly the actual facts. In Burma foreign coal was about $4\frac{1}{2}$ per cent. of the total consumption from 1910 to 1912 and about 7 per cent. from 1912 to 1914. After the war the imports were as high as 36 per cent. in 1921-22, but steadily diminished to 5 per cent. in 1924-25 with a slight increase to 7 per cent. in the nine months ending in December 1925. Indian coal has now entirely recaptured the share of this market which it lost temporarily in 1921. In Madras foreign coal was little more than 1 per cent. of the imports by sea in 1910 and 1911 and about 4 per cent. in 1912 and 1913. For three years after the war the percentage of foreign imports ranged from 15 to 25 but dropped to $8\frac{1}{2}$ in 1924-25 and to $5\frac{1}{2}$ in the last nine months of 1925. In this case also the pre-war position has been re-established. The consumption of sea-borne coal in Madras and Burma, both before and after the war, has averaged about 800,000 tons a year, and the quantity of foreign coal imported is no more than 50,000 tons or $6\frac{1}{4}$ per cent. It is evident that Indian coal can have little need of special assistance in either province. It follows that only in Bombay and Sind is foreign competition seriously felt and the circumstances of these markets merit a more minute examination.

The Bombay coal market before, during and after the war.

15. In the four years immediately preceding the war the supplies of coal which reached Bombay amounted in the aggregate to 1,200,000 tons a year, of which 95 per cent. came by

* The imports of coal into Burma and Madras by sea, before and after the war, have been tabulated in Appendices IV and V.

sea and only 5 per cent. by rail. During the first half of the period three-quarters, and during the second half three-fifths of the supplies were Indian coal. This weakening of India's hold on the Bombay market was mainly the result of heavy imports of South African coal which rose from an average of 18,500 tons in 1910-11 and 1911-12 to an average of 186,000 tons in the next two years. During the war the imports of foreign coal were negligible after 1915, but the restrictions on shipping had another striking result, for the shipment of coal from Calcutta to Bombay was suspended altogether for three years. During the seven years from 1914-15 to 1920-21 about 1,100,000 tons of coal reached Bombay annually and more than three-quarters came by rail, while for four years* in succession the rail-borne coal was more than 90 per cent. of the arrivals. The years 1921-22 and 1922-23 were marked by a revival of foreign imports on an unprecedented scale. In these two years, out of a total tonnage of nearly $2\frac{3}{4}$ million tons, two-thirds were foreign coal and only one-third was Indian. The three following years of the quinquennium witnessed two changes—a marked decrease in the consumption of coal and a gradual recovery of the market by Indian coal. The total consumption, which before the war was about 1,200,000 tons a year, has averaged little more than 600,000 tons during the last three years, while the proportion of Indian coal rose to about two-fifths in 1923-24 to one half in 1924-25, and to three-fifths in the first nine months of 1925-26. The nett result is that Bombay now takes only half the quantity of coal which she required before the war, and the Indian mines supply very nearly the same percentage of the total as they did in 1912 and 1913.

Displacement of coal in Bombay by fuel oil and hydro-electricity.

16. The decrease in the consumption of coal at Bombay is attributable not to any decline in industrial activity, but mainly to the displacement of coal by hydro-electricity and fuel oil. In 1913-14 there were 82 cotton mills in Bombay City and Island all of which used coal as their sole source of power. In 1924-25, 61 mills used hydro-electricity as their main source of power, 23 used fuel oil either as their main source of power, or for subsidiary purposes, while the number of mills still dependent entirely upon coal was only 17. Most of the mills using hydro-electricity, however, used also considerable quantities of coal for the production of steam for heating, drying and bleaching. These figures were supplied by the Millowners' Association. The Bombay Chamber of Commerce informed us that, apart from the mill industry, they were not aware of any important industrial concerns in Bombay that were consumers of coal. The power supplied by the Tata Hydro Electric Companies in 1924-25 was the equivalent of between 300,000 and 400,000 tons of coal,† while the imports of

* 1916-17 to 1919-20.

† The Bombay Millowners' Association stated one ton of coal is equivalent to 600-800 electrical units, according to the type of coal and steam plant used. In 1924-25 the Tata Power Companies supplied 250 million units. It is on this basis we have estimated the quantity of coal displaced.

fuel oil in the same year amounted to 60 million gallons or about 250,000 tons which may be taken as equivalent approximately to 450,000 tons of coal. Fuel oil is used not only by cotton mills and other industrial establishments, but also in bunkering ships (40,000 tons in 1923-24), and on the Great Indian Peninsula Railway (82,000 tons in 1924-25). The completion of the new hydro-electric stations now under construction will lead to a further displacement of coal by electricity, but may not affect the import figures appreciably. Nine-tenths of the increase in power capacity is earmarked for use by the Railways in the electrification of the suburban lines. But on the Great Indian Peninsula Railway oil fuel is used on all suburban trains and in most of the main line trains up to Igatpuri and Kasara. It appears from the evidence given by the Agent of the Railway before the Coal Committee that after electrification the oil burning locomotives will be transferred to sections of the line more remote from Bombay. The coal that will be displaced is therefore not coal which comes to Bombay by sea, but coal which crosses India by rail and never reaches Bombay at all. In 1913-14 the Great Indian Peninsula Railway imported 279,000 tons of coal into Bombay by sea, but none since 1921-22. Most of the coal used by the Railway is now drawn from its own colliery at Kargali in the Bokaro coal field and transported by rail, but very little of it actually reaches Bombay.

The present market for coal in Bombay.

17. In a later paragraph we shall give our reasons for believing that, with rates and prices at their present level, coal is not likely to lose much more ground to oil and hydro-electricity, but on the other hand it does not seem likely that many of the consumers, who have abandoned the use of coal, will return to their first allegiance. The Bombay coal market requires 600,000 tons of coal annually, of which three-fifths is supplied by Indian mines and two-fifths from abroad. The market which might be captured cannot be put higher than 250,000 tons. Of this quantity, however, about 150,000 tons is used for bunkering, or is re-exported as cargo, and it is by no means certain that the imposition of a protective duty would enable the Indian mines to secure the whole of this branch of the trade. Coal is sometimes transhipped from vessel to vessel without being landed, and in such cases, though duty is paid in the first instance, a rebate of seven-eighths is subsequently granted. The quantity of coal so transhipped at Bombay in 1925 was 40,000 tons, and if an increase in the duty were followed by an increase in the price, it is probable that shipowners would resort to this practice on a more extensive scale. It is still more probable that, if prices went up, fewer ships would bunker in Bombay, for the shipowner in this matter is not amenable to coercion and has often the alternative of bunkering at a cheaper port. At a time, when the shipping trade is passing through a period of extreme depression, costs are narrowly scrutinized, and a small difference in the price of coal may easily divert business elsewhere. At any rate, it is clear that the re-exports of coal—all coal transhipped direct from vessel is included under this head—must be deducted from

the capturable market in Bombay, and as the re-exports amounted to 51,000 tons in 1925, it is clear that protection could not give the Coal industry an additional market in Bombay for more than 200,000 tons, and quite possibly the actual increase in the sales of Indian coal might be substantially less than this figure.

Pre-war imports of coal at Karachi by the North Western Railway.

18. Before the war the great bulk of the coal which reached Karachi by sea was imported for the use of the North Western Railway. The figures supplied by the Agent of the Railway are as follows:—

	Imports by sea of railway coal.	
	Indian.	Foreign.
	Tons	Tons.
1910 11	363,205	..
1911-12	192,809	.
1912 13	292,644	27,326
1913-14	283,682	165,394

The quantities of coal passing through Karachi for railway use before the war were therefore substantial, and in two post-war years—1921-22 and 1922-23—they were on a similar scale, 371,000 tons of foreign coal being imported on Government account in the former year and 317,000 tons in the latter. The post war imports were due, however, to temporary causes which have now ceased to operate, and the Railway Administration no longer imports coal by sea. As early as January, 1914, trials of oil fuel were commenced on the Karachi section of the line, and, the results being satisfactory, oil fuel had come into general use on the railway by the middle of 1918 for a distance of 200 miles from Karachi. In 1924-25, 65,000 tons of fuel oil (estimated to be equivalent to 117,000 tons of Bengal coal) were consumed by the railway and no coal was imported by sea. The coal required for the sections of the railway more than 200 miles from Karachi must, therefore, have been transported by rail.

The market for coal at Karachi before, during and after the war.

19. The coal (other than railway coal) imported into Sind before the war was used mainly for bunkering, but supplied also the industrial needs of Karachi and its vicinity. The market though small was growing rapidly, and the imports by sea increased from less than 60,000 tons in 1910-11 to more than 120,000 tons in 1913-14. During the first three years of the period, the proportion of Indian coal was more than three-quarters, but dropped to two-thirds in 1913-14 owing to larger imports from South

Africa During the war period, the importation of coal by sea was suspended, and Karachi was entirely dependent on Indian coal transported by rail. Imports by sea were resumed in 1920 but no foreign coal arrived in that year. From 1921-22 onwards the coal arriving by rail has been negligible. For the first three years of the quinquennium beginning in that year, the annual imports by sea averaged 145,000 tons, but increased to 180,000 tons in 1924-25 and are likely to exceed 200,000 tons in 1925-26.* The proportion of Indian coal, which was nearly three-fifths in 1921-22, dropped to a little more than a quarter in 1922-23, rose again to two-fifths in the next two years and should be more than one-half in the current year. In this case also Indian coal is gradually recovering the predominant position which it held before the war.

The present market for coal at Karachi.

20. Karachi is not yet a large industrial centre and most of the coal imported there is used for bunkering. Statistics are not available for any year prior to 1924-25, but in that year the coal bunkered was 115,000 tons out of 179,000 tons imported, so that the coal retained for internal consumption was only 64,000 tons. In the first nine months of 1925-26, the bunker coal was 96,000 tons as against 159,000 tons imported. The bunkering of Indian and of foreign coal is not recorded separately, and it must be presumed that the proportion of each is the same as in the import figures. The total imports from foreign countries cannot be put higher than 100,000 tons a year, out of which 60,000 tons would be bunker coal. At Karachi, as at Bombay, bunker coal is sometimes transhipped direct from vessel to vessel and in such cases it escapes the import duty. The quantity dealt with in this way in 1924 was 22,000 tons, and still larger quantities would no doubt be transhipped if the duty were raised. Probably not more than half the bunker trade could be captured if a protective duty were imposed. The increase in the sales of Indian coal at Karachi, which might result from protection, is therefore limited to 70,000 tons of which 30,000 tons would be bunker coal.

Increase in the market for Indian coal which a protective duty could give only 300,000 tons a year.

21. We have estimated that protection might increase the sales of Indian coal at Bombay by 200,000 tons and at Karachi by 70,000 tons. The imports of foreign coal in Madras and Burma might be extinguished altogether and these amount at present to about 50,000 tons a year. The increase in output which protection can give is therefore no more than 320,000 tons, which is 1·7 per cent. of the total consumption. The share of the Bihar and Bengal coal mines, who are the most likely to benefit, might be as much as 300,000 tons. The output of these coalfields in 1925 was $18\frac{3}{4}$ million tons, and if $12\frac{1}{2}$ per cent. be deducted on account of wastage and colliery consumption, the nett output is $16\frac{1}{4}$ millions. The increase in sales could not therefore exceed 1·8 per cent. This is a maximum

* The imports during the first nine months of the year amounted to 159,000 tons.

figure, for less of the bunkering trade may be captured than we have estimated. We shall now turn to the effect of protection upon prices.

The c.i.f. cost of the best Jharia coal at the Indian ports

22. The Coal Committee found that the best Jharia coal (usually known as selected Jharia) was the type of Indian coal most closely resembling the South African coal which constitutes the bulk of the imports and therefore most likely to displace it. The whole of our discussions with the representatives of the Indian Mining Association and the Indian Mining Federation proceeded on this basis, and it is desirable to adhere to it. The price of this type of coal was stated to be Rs. 6-8-0 a ton at the pithead at the time evidence was taken, but it has since fallen to Rs. 6 a ton, which is the figure given by both the Federation and the Association after the Government Railway contracts had been placed. In order to ascertain the price payable at the overseas Indian ports it is necessary to add the transport charges which have to be incurred up to arrival at destination. The Coal Committee found that the transport charges, other than the sea freight, amounted to Rs. 5-2-6 a ton and with the rebates subsequently sanctioned this sum is reduced to Rs. 4-8 made up as follows:—

	Rs.	A.	P.
Railway freight (nett)	3	0	6
Calcutta port charges	0	12	0
Grading fee	0	1	0
Wastage at 2 per cent.	0	3	0
Insurance	0	3	0
Finance	0	4	0
TOTAL	4	7	6

The Mining Federation would include in the transport charges an allowance of 4 annas a ton to cover agency charges at destination and would raise the allowance for wastage from 3 annas to 5 annas a ton. It appears from the oral evidence that the allowance for agency charges is intended to cover the cost of popularising Indian coal at Bombay and Karachi by propaganda work. The evidence suggests that it is only some of the colliery owners who find it necessary to incur this charge, which in any case is not part of the c.i.f. cost. As for the wastage we see no reason to alter the Coal Committee's figure which is accepted by the Mining Association. The c.i.f. cost of the best Jharia coal at the various Indian ports is arrived at by adding to the pithead price the transport charges up to the time of shipment and the sea freight which varies for each port. The following table gives the c.i.f. cost of selected Jharia at Rangoon, Madras, Bombay and Karachi, the sea freights given being the actual freight payable in October

and November 1925 as supplied by the Mining Association. It is assumed for the moment that Rs. 6 is the lowest price that would be accepted for the best Jharia coal sold anywhere in India, and that there is no competition from abroad:—

	Price f. o. b. Calcutta.	Sea freight.	Cost c. i. f. port of destination.
	Rs. A. P.	Rs. A. P.	Rs. A. P.
Rangoon	10 8 0	4 0 0	14 8 0
Madras	10 8 0	5 0 0	15 8 0
Bombay and Karachi . .	10 8 0	6 8 0	17 0 0

23. At the time the Coal Committee made their enquiry (January 1925), the c.i.f. price of Transvaal coal at Bombay was Rs. 19 a ton. The present c.i.f. price, as given both by the Federation and the Association, is Rs. 17 a ton. Two-thirds of the reduction is accounted for by a fall in the sea freight on South African coal from 12 shillings to 10 shillings a ton. The following table compares the sea freights from (*a*) Calcutta and (*b*) South Africa at various dates:—

Sea freights to Bombay on coal from Calcutta and South Africa.

	January 1925.	Normal rate as estimated by the Coal Committee	October and November 1925.
	Rs A. P.	Rs. A. P.	Rs. A. P
Calcutta to Rangoon . .	5 0 0	6 0 0	4 0 0
Calcutta to Madras . .	6 0 0	6 12 0	5 0 0
Calcutta to Bombay or Karachi	7 0 0	8 4 0	6 8 0
South Africa to any Indian port.	8 0 0	8 0 0	6 10 8

In estimating the freight normally payable on coal shipped from Calcutta to other Indian ports, the Committee adopted what they believed to be the rates at which twelve months contracts could be placed, and for Bombay this rate was 4 annas in excess of the South African rate. Actually, however, the rates from Calcutta to Bombay have in two successive cold weathers been lower than the rates from South Africa, and no evidence has been adduced which suggest that on the average Indian coal will be subject to a higher sea freight to Bombay than the freights payable on coal from South Africa or the United Kingdom.*

* The freight to Bombay on coal from a British port was 12*s*. 9*d*. a ton in November 1925.

Price obtainable for the best Jharia coal c.i.f. Bombay.

24. The Coal Committee found that most consumers in Bombay would not purchase the best Jharia coal unless the c.i.f. price were lower than the c.i.f. price of Transvaal coal by 8 annas a ton, and their view is confirmed by the evidence we have taken. In the nature of the case the figure must be an average, and no doubt there are purchasers who would continue to buy South African coal even if the difference in the price were as much as Re. 1* a ton or more. It is safe, we think, to say that with Transvaal coal at Rs. 17 a ton c.i.f., the best Jharia coal should sell freely in Bombay at from Rs. 16 to Rs. 16-8 a ton c.i.f. According to information supplied by the Mining Association business was actually done at Rs. 16-4 and Rs. 16-8 in October 1925. Since the c.i.f. cost of selected Jharia is Rs. 17 a ton, the collieries must reduce their pithead price by from 8 annas to Re. 1 a ton in order to sell in Bombay. Prices and freights vary of course from time to time, and the prices we have given are illustrative mainly. Their value lies in the fact that it is variations in sea freights that are most likely to affect coal prices in Bombay for the next two or three years, and that on the whole the freights from Calcutta and from South Africa tend to rise and fall together. If the sea freight from Calcutta went up and raised the c.i.f. cost of the best Jharia coal to Rs. 18 a ton in Bombay, there would probably be a compensating increase in the price of South African coal and the relative position of the competitors would be unchanged.

Protection would not increase the price of Indian coal except possibly in Bombay and Sind.

25. It will be evident from the table at the end of paragraph 22 that South African coal cannot compete seriously with Indian coal in either Madras or Burma for the Indian collieries can under-quote Transvaal coal by Re. 1-8 a ton in Madras and Rs. 2-8 a ton in Rangoon, and still realise the same price at the pithead as for coal sold anywhere in India. It will be evident that the imposition of a protective duty would not affect the price of Indian coal in either province, for it is already regulated not by the cost of importation but by internal competition. It follows *a fortiori* that prices will not be affected in any area in India that is more easily accessible from the coalfields by an all-rail route than from the sea. In such areas foreign coal stands no chance, and so long as the productive capacity of the Indian mines greatly exceeds consumption, an increase of less than 2 per cent. in the demand is insufficient to cause a general rise in prices. The only question that remains is whether in Bombay and Sind, prices are likely to go up as a result of protection.

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* A difference of Re. 1 in the c.i.f. price means a difference of Rs. 1-8-0 to the consumer owing to the revenue duty of 8 annas a ton on imported coal.

Comparison of the price of Jharia coal at Bombay with the price of similar coal at Madras and Rangoon

26. The Mining Federation take the view that the duties they propose might result in an increase in the price varying from Re 1 to Rs. 3 a ton according to the quality of the coal, while the Mining Association believe that the rise would be small, and recognize that an increase in prices may be undesirable in the interests of the Coal industry itself. The best evidence available on this subject is to be found in the actual prices at which business has been done in recent months at Rangoon, Madras and Bombay. Indian coal already possesses in Rangoon the same advantage over imported coal as it would enjoy at Bombay if a protective duty of Rs. 2-8 a ton were imposed, and in Madras the advantage which a duty of Re. 1-8 a ton would give. Bombay is a rather larger market than either Madras or Rangoon and is a more important bunkering port. It is very unlikely that, if foreign competition were eliminated, the colliery owner would be able to realize a higher pithead price for coal sold at Bombay than for coal sold at the other two ports. Figures supplied by the Mining Association will illustrate this point and they are tabulated below:—

C.i.f. prices of selected Jharia at various ports.

	Rangoon	Madras	Bombay and Karachi
	Rs. A. P.	Rs. A P	Rs A P.
C. i. f. price	14 12 0	16 12 0	16 8 0 to 16 4 0
Deduct sea freight . . .	4 4 0 to 3 12 0	5 4 0	6 8 0 to 6 4 0
Other transport charges . .	5 2 0	5 2 0	5 2 0
Total deductions	9 6 0 to 8 14 0	10 6 0	11 10 0 to 11 6 0
Pithead price	5 6 0 to 5 14 0	6 6 0	4 14 0

These figures confirm the statement of the Mining Association that "shipment sales generally, though not always, leave the seller a lower equivalent f.o.r. colliery price than other sales, sometimes 8 annas per ton, sometimes Re. 1, sometimes more. This would apply to all ports, but more especially to Bombay and Karachi." The pithead price of the coal sold at Madras was very nearly equal to the ordinary pithead price of selected Jharia at the time, but the price of the coal sold in Rangoon was less by nearly Re. 1 and in Bombay by Re. 1-10.

Extent to which protection might raise the price of coal in Bombay and Karachi

27. The natural inference from the figures cited in paragraph 26 is that the imposition of a protective duty might be followed by an increase in the price of Indian coal at Bombay and Karachi of from 8 annas to Re. 1 a ton.* It is doubtful, however, whether the price of bunker coal could be increased without driving away trade, and the producers would probably find that it paid them best to leave prices unchanged in order to make sure of capturing the market. In that case the higher price would be paid only by the domestic consumer. It is not certain that even he would have to pay more, but at the worst the rise in the price should not, on the average, exceed 12 annas a ton. It may be asked whether the competition of fuel oil and hydro-electricity might not of itself suffice to prevent any increase. We do not think that this factor will come into play. It is not necessary to go deeply into the question, but all the information supplied by the North Western and Great Indian Peninsula Railways, by the Bombay Chamber of Commerce, the Mill-owners' Association and Messrs. Tata and Sons, Limited, points to the conclusion that, with coal prices at their present level, an increase of about 12 annas a ton would be insufficient to induce such industrial concerns as still use coal to incur the capital expenditure necessary for the conversion of their plant. This is also the view of the Mining Association and Federation.

Effect of protection on the sales and prices of Indian coal.

28. Our survey of the conditions affecting the Indian Coal industry has led us to the conclusion that the imposition of a protective duty might increase the sales of Indian coal by some 300,000 tons a year (*i e.*, by less than 2 per cent.), that the price in Bombay and Karachi to domestic consumers might be raised at the most by about 12 annas a ton, and that in the rest of India prices would not be affected. The coal retained for domestic consumption at these ports is not more than half a million tons in all As the annual sales of Bengal and Bihar coal amount to 16 million tons, the increase in the average price received by the mines would be about 4½ pies a ton. It is evident from these figures that the consumer has little to fear from protection, and the producer equally little to hope Where the conditions are such as prevail in the Indian Coal industry, protective duties are all but impotent whether for good or evil

Probability of increased sales of Indian coal at Bombay and Karachi even though protection is withheld.

29. Before concluding this Chapter it is necessary to mention briefly two points which will be more fully discussed in Chapter III but cannot altogether be ignored here. The mine-owners contend that, though they have to

* It is to be remembered that the prices quoted in paragraph 26 were fixed before the grant of the rebates which (making allowance for the grading fee of one anna) reduce the cost of transport by 11 annas a ton. The increase in price referred to in the text is not, therefore, an increase over the prices actually quoted in 1925, but an increase over the lower prices which the rebate renders possible.

accept Rs. 16-8 a ton c.i.f. for the best Jharia coal sold in Bombay, intrinsically it is worth Rs. 18-8 a ton, for it is better than Transvaal coal and as good as Natal coal which costs at least Rs. 18 a ton c.i.f. and Rs. 18-8 a ton when the present customs duty is added. If this be so, the question at once suggests itself whether the sales of India coal in Bombay and Karachi are not likely to increase substantially even though protection is withheld. A difference of Re. 1-8 a ton has sufficed to reduce the imports of foreign coal at Madras to negligible proportions, and the rebates recently sanctioned give the Indian mines an advantage of 11 annas a ton which they did not possess in 1925. In addition, the establishment of a Grading Board gives the purchaser a guarantee of quality which previously did not exist. If, in fact, the Indian coal which reaches Bombay is as good as the mine-owners claim it is, it should rapidly displace South African coal. In that case, the additional market which protection can give must be a great deal less than 300,000 tons.

Consumer's view of a rise in the price of coal due to a protective duty.

30. We have said that protection might raise the price of Indian coal in Bombay and Sind by 12 annas a ton, and this is correct from the producer's point of view. It makes no difference to him whether the duty is Rs. 2 or Rs. 10 a ton, for once the price reaches the level determined by internal competition it can go no higher. But the consumer looks at the case rather differently. A high rate of duty would make the importation of the best Welsh steam coal impossible and a consumer who required that quality would certainly not agree that the only difference to him was 12 annas a ton. The reply of the representatives of the Coal industry would presumably be that in place of imported coal he will be able to buy equally good or better Indian coal at the same price. The argument may have some force when the consumer uses South African coal at present, but it is inapplicable to a shipping line which wants the best Welsh steam coal for bunkering.

CHAPTER III.

Proposed Protective Duty on all Imported Coal.

Questions considered in Chapter III.

31. In this Chapter we shall discuss the proposal that protective duties should be imposed on all imported coal irrespective of the country of origin. The rates of duty proposed by the Mining Federation and the Mining Association will first be considered, and thereafter, the grounds on which protection has been claimed and the objections of which account must be taken. We shall postpone to Chapter IV the question of the South African railway rebate on export coal, and in this Chapter we shall deal with the demand for protection as if the issue of unfair competition has not been raised.

Rates of duty proposed by the Mining Federation.

32. The proposal put forward by the Mining Federation is that a duty of Rs 5 a ton should be imposed on Natal and Transvaal coal imported into India, and a duty of Rs. 10 a ton on all other coal. It will be desirable to explain how these rates have been arrived at, and this can best be done in tabular form. The figures are as follows:—

	Rs.	A.	P.
Raising cost of coal	5	0	0
Allowance for profit	1	0	0
Fair selling price of second class coal . . .	6	0	0
Difference between the price obtainable for second class coal and the best Jharia .	3	0	0
Fair selling price of the best Jharia at the pithead	9	0	0
Sea freight to Bombay and Karachi . .	8	4	0
Transport charges other than sea freight after allowing for rebates recently sanctioned* .	4	14	0
Fair c.i f. price of the best Jharia in Bombay and Karachi	22	2	0
Present c.i.f. price of Transvaal coal in Bombay and Karachi	17	0	0
Duty required on South African coal . . .	5	0	0

* The Federation have taken the transport charges at a figure higher by 6 annas a ton than the figure we have adopted On the other hand they have in this calculation ignored the fact that the best Jharia will not at present realize the same price as Transvaal coal but about 8 annas less.

The basis of the calculation is that Rs. 9 a ton is a fair price for the best Jharia coal, and the underlying assumption is that the industry is not receiving fair treatment if second class coal cannot be sold at a profit. The imposition of a duty of Rs. 10 a ton on coal other than South African is justified on the ground that British coal realizes in Bombay and Karachi a price higher than the price of the best Indian coal by Rs. 5 to Rs. 10 a ton. If the best Jharia coal is to be sold in Bombay at Rs. 22 a ton, the price of British coal must be raised to Rs. 29 a ton. North country coal has actually been imported into Bombay at Rs. 19 a ton and the duty required is therefore Rs. 10.

No reason for imposing a higher duty on coal other than South African

33. The reasons advanced for subjecting coal imported from countries other than South Africa to a higher rate of duty cannot be substantiated, and are not in accordance with the facts The coal which in the past has sold in Bombay at a price higher by Rs. 5 to Rs 10 a ton than the price of the best Indian coal is Welsh steam coal imported mainly for bunkering. The f.o.b. price of the best Welsh coal in November 1925 was about 23 shillings a ton, and it sold in Bombay c.i.f. at Rs. 24 to Rs. 25 a ton. Coal sold c.i.f. in Bombay at Rs. 19 a ton would cost about 15 shillings a ton f.o b. at a British port which was approximately the price of 'best Newcastle' at the same date If the difference in price between the two classes of British coal is a fair index of the difference in quality, the North country coal cannot be better than Natal coal which sells in Bombay at from Rs. 18 to Rs. 19 a ton, and if in fact its intrinsic quality were such as to make it worth more by Rs. 5 a ton than Natal coal, it must soon have ousted the latter, whereas the actual imports of this class of coal are quite small. In spite of the marked fall in British prices during 1925, British coal has gained no ground at the expense of South African coal, the imports from both countries being practically stationary. It is clear that a rate of duty high enough to keep South African coal out of Bombay and Karachi would be effective against coal from all other countries, except when the importer wants the very best steam coal for bunkering. That is an entirely special demand which India cannot meet.

Criticism of the proposed rate of duty on South African coal.

34. The calculations underlying the proposed duty of Rs. 5 a ton on South African coal are open to various criticisms. In the first place, it is not correct to take the freight from Calcutta to Bombay at Rs. 8-4 a ton (the Coal Committee's rate) if the price of Transvaal coal is taken at Rs. 17 a ton. When the Committee reported, the freight from South Africa was Rs. 8 a ton and the c.i.f. price of Transvaal coal Rs. 19 a ton. The present freight from Calcutta to Bombay is Rs. 6-8 a ton and from South Africa Rs. 6-10-8. In order to get a fair comparison the freight from Calcutta cannot be taken higher than Rs. 7 since both freights tend to rise and fall simultaneously. The duty required has there-

fore been over-estimated by Re. 1-4 a ton. This, however, is a point of detail and there are other and more fundamental difficulties. If a protective duty of Rs. 5 a ton is imposed on all imported coal, the Indian producer will not (as the Federation admit) be able to sell the best Jharia coal in Bombay for Rs. 22 c.i.f. Bombay, and we have shewn in the last Chapter that internal competition is likely to keep the price in the neighbourhood of Rs. 17 a ton. The Federation justify their proposal on the ground that the rate of protection should be fixed high enough to be effective even during periods when second class coal can be sold at a profit. What they mean is that, if internal conditions so changed that the best Jharia coal could again command a pithead price of Rs. 9 a ton, a duty of Rs. 5 a ton would enable them to realize Rs. 22 a ton in Bombay. To this argument there are at least two replies. In the first place, it would be a very serious burden on other industries in India if the price of coal again rose to the level suggested, and the very existence of some of them would be endangered. In the second place, if the best Jharia coal sold at the pithead for Rs. 9 a ton, the coal industry would be exceedingly prosperous and would stand in no need of protection. The Federation implicitly admit this in their representation to the Board, for after pointing out that the importation of foreign coal is only partly responsible for the depression in the Indian coal trade and that there have been other causes at work, they say "Had the other depressing factors been absent, probably there would have been no need for protection".

Impossibility of fixing the rate of duty on coal on the basis of a fair price.

35. The truth is that the conditions of the Indian coal industry make it impossible to fix the scale of protection with reference to a 'fair' price. That can always be done so long as the domestic output is only a fraction of the total consumption and the price is regulated by the cost of importation. In such cases it is necessary to determine what is a fair price for the Indian manufacturer, and it is usually possible to raise the price by the amount of the duty imposed. But where, as in the Coal industry, the domestic output is already more than 97 per cent. of the total consumption, and the price throughout India, except in two small areas, is regulated solely by internal competition, it is useless to determine a "fair" price, because protection will leave prices unchanged. The Federation's proposal of a duty of Rs. 5 a ton implies a misconception of what protection can do for an industry and what it cannot. There is no magic efficacy in protection, and protective duties can operate only when certain conditions are fulfilled. In the case of the Coal industry, it is only in Bombay and Sind that a protective duty could raise prices, and even there the present price of the best Jharia coal is only a little below the level at which internal competition must in any case hold it. It is for this reason that we have abstained from investigating the cost of production, and it is for this reason that the Mining Association have limited their proposals to the imposition of a protective duty of Re. 1-8 a ton

in addition to the existing Revenue duty of 8 annas a ton. A duty at this rate would do all for the industry that protection can do, and would provide some margin against the contingency that steps might be taken by South Africa to counteract the duty by lowering the price. With Transvaal coal at Rs. 19 a ton c.i.f. duty paid, the best Jharia coal could be sold in Bombay at Rs. 18 a ton so far as foreign competition is concerned, though internal competition might keep the price as low as Rs. 16-8 or Rs. 17 a ton. If a protective duty is imposed at all, Re. 1-8 a ton would, we think, be the appropriate rate.

Depression in the Coal industry.

36. Both the Mining Federation and the Mining Association lay stress on the fact that the Coal industry is passing through a period of depression when prices are low, and many mines have been forced to shut down or to curtail their production. Only first class coal, it is said, can now be sold at a profit and the raising of second class coal, except in mines where costs are unusually low, involves an actual loss. It is this depression which in their opinion creates the need for protection. The importation of foreign coal is not, they admit, the chief cause of the industry's troubles, nor can a protective duty restore prosperity, but it will provide an additional outlet for Indian coal, and so may alleviate the disease which it cannot cure.

Reasons given for declining coal prices.

37. The fall in the price of coal during the last two years has been rapid and substantial. Between November 1923 and November 1925 the price of selected Jharia dropped from Rs. 10-8 to Rs. 6-8 a ton, a decline of 38 per cent., and since then the price has gone down by another 8 annas. Similarly the price of Deshargarh coal fell from Rs. 12 to Rs. 7-8 a ton, of 1st class Jharia and 1st class Raneegunge from Rs. 9-8 to Rs. 5-8 and of 2nd class Jharia from Rs. 6-8 to Rs. 3-8.* In paragraph 5 of their representation the Mining Federation discuss the causes which have brought about the decline, and mention *inter alia* the importation of foreign coal, the extinction of most of the small industrial concerns which came into existence during the post-war boom, the loss of the export market, and a reduction in the demand for bunker coal in Indian ports. The suggestion clearly is that the loss of certain markets for Indian coal is responsible for the present low prices.

Present consumption of Indian coal higher than ever before.

38. It is quite true that the overseas markets and the bunker trade take less Indian coal than they did before the war, and it is also true that many industrial concerns which were purchasers of coal in 1920 have ceased to exist. But it is not a fact that there has been any decline in the total demand for coal in India, and it can be shown that the actual consumption has been higher in the last two years than in any previous period. In the follow-

* The 1923 prices are those given by the Mining Association. The Federation gave lower figures which we are unable to accept as correct.

ing statement the quantities of coal raised in Bengal and Bihar, and the quantities despatched by the East Indian and Bengal Nagpur Railways are given for the last 8 years :—

Year.	Quantity of coal raised in Bengal and Bihar and Orissa Millions of tons.	Quantities of coal despatched by the East Indian and Bengal Nagpur Railways. Millions of tons.
1918	19·[illegible]	15·0
1919	20·9	14·8
1920	16·2	15·2
1921	17·3	14·1
1922	17·0	13·1
1923	17·8	14·3
1924	19·1	16·5
1925	18·7	16·2

It will be seen that the output of coal was higher in 1924 than in any previous year except 1919, and higher in 1925 than in any year except 1918, 1919 and 1924, but whereas in 1919 less than 15 million tons were despatched by rail, more than 16 million tons were despatched in each of the years 1924 and 1925. The stocks at the collieries have admittedly diminished, and as there is no evidence of an undue accumulation of stocks elsewhere, there must have been a real increase in consumption not only as compared with the years 1921 to 1923, but also with the boom period from 1918 to 1920. The reduction in exports and in bunkering has been more than counterbalanced by the growth of the internal demand.

Reasons for increased consumption of coal.

39. The chief reason why more coal is now consumed in India than ever before is the growth of the Iron and Steel industry. During the last two or three years the exports of pig iron have rapidly increased and are now an important branch of India's foreign trade. For every ton of pig iron exported from $1\frac{1}{2}$ to $1\frac{3}{4}$ tons of coal are burnt in the coke ovens and blast furnaces, while for every ton of finished steel manufactured nearly 4 tons of coal are consumed. The rise in the output of Indian steel from about 125,000 tons in 1923 to about 300,000 tons in 1925, means an increase in the consumption of coal by 700,000 tons a year. If the manufacture of steel at Jamshedpur had ceased (and this was

inevitable if steel were not protected), over a million tons of coal, which are now used in making steel, would have been thrown upon the market and prices would have been still further depressed. It is impossible to ignore the fact that the Coal industry has benefited to a far greater extent from the protection granted to steel than it can possibly do from any protective duty on coal.

Low price of coal due to over-rapid development

40 The present low prices of coal must be attributed not to a decrease in consumption, for there has been none, but to the fact that, though the demand has risen, the productive capacity of the mines has increased still faster. From 1917 to 1921 the industry was exceedingly prosperous. The demand for coal was growing, foreign supplies were unobtainable, prices were steadily rising and the most sanguine hopes were entertained as to the prospects of the future. The natural and inevitable result was that very many new mines were opened and development in the older collieries was vigorously pushed on. Between 1914 and 1924 the number of coal mines in Bengal and Bihar and Orissa rose from 555 to 872,* while in the latter year 1·9 million tons of coal were raised in 215 mines which are not mentioned in the Returns for 1920 and presumably were not then in existence. In the event it has proved, as in many similar cases, that the prospects of the future had been overrated, and that the mines could produce much more coal than they could sell. In these circumstances a heavy fall in prices was inevitable, though it was retarded for a time by the wagon shortage So long as the railways were unable to move as much coal as the mines could raise and sell, the quantity of coal effectively on the market was restricted, there was increased competition for the coal that could be moved, and the price in areas, where foreign competition is unfelt, was maintained at an artificial level. It was not until the railways could supply wagons promptly to any colliery that asked for them, that the competition between mines to secure orders became intense and prices fell to their natural level.

The excess of productive capacity over demand not a sufficient ground for protection.

41. The fact that productive capacity has for the time being outstripped a growing demand is not a sufficient ground for protection, for in such circumstances there is always a danger that the unfit may be shielded from the consequence of their own miscalculations. Some of the new mines may be favourably situated and able to raise coal cheaply, but in the nature of the case there must be many which would never have come into existence but for the boom, and cannot hope to survive under normal conditions They were started by their promoters in the hope that profits would be large, and the fact that, with prices at their present level, they cannot raise coal except at a loss, gives them no claim to State assistance. The point is not indeed of much consequence in this enquiry, for the increase in sales resulting from a protective duty would do very little to enable

* Of these only 696 raised coal during the year.

the less efficient collieries to survive. But even if they are left out of account, it has still to be shewn why the State should intervene on behalf of an industry which enjoys great natural advantages and is less exposed to foreign competition than almost any other industry in India. Before a valid claim to the imposition of a protective duty on coal can be established, it must be shewn that special circumstances exist which entitle this industry to exceptional treatment. One of the reasons suggested by the applicants for protection, *viz.*, the South African railway rebate on export coal we shall consider in Chapter IV. The others will be discussed in this Chapter.

The claim of the Coal industry to assistance from the State.

42 Neither the disappearance of the industrial concerns which sprang up during the boom, nor the reduction in bunkering, in so far as that is due merely to the substitution of fuel oil for coal or to a decrease in the number of ships calling at Indian ports can give the Coal industry a valid claim to special State assistance. Protective duties cannot restore to an industry markets which have ceased to exist. The representatives of the Coal industry, however, contend that the loss of the overseas markets* to coal from other countries was the direct result of the various restrictions and controls to which coal traffic was subjected in the years following the war. In particular the embargo on the export of coal came at a time when the shortage of shipping was disappearing, and Indian coal must in any case have had a hard struggle to hold its own in the neutral markets of Ceylon and the Straits The embargo removed Indian coal from the field altogether, and gave its rivals time to acquire a firm grip on these markets. The coal owners argue that, though the action taken was no doubt dictated by regard for the national interest, yet in so far as injury was inflicted on it, the Coal industry has now a valid claim to special help. Shipments of coal to Bombay and Sind were not prohibited but were only permissible under licence, and the supply of railway wagons was inadequate and was strictly controlled, so that the coal trade with these ports was carried on at a double disadvantage. These conditions, it is urged, were largely responsible for the dislike of Indian coal which grew up at Bombay and Karachi as well as in foreign ports and led consumers to prefer South African coal.

The embargo on coal exports not a reason for imposing a protective duty on coal.

43. The embargo may be partly responsible for the displacement of Indian coal in Ceylon and the Straits Settlements, but as shipments to Bombay and Karachi were not prohibited it could not affect these markets. The argument apparently is, however, that the embargo was imposed in the interests of the consumer who should not complain if he is asked to pay more for his coal now in order to help the Coal industry. The plea lacks cogency for at Bombay and Karachi the

* This term includes Bombay and Karachi as well as such export markets as Ceylon and the Straits Settlements.

interests of consumers could more easily than elsewhere be safeguarded without an embargo on exports, and the shortage in both places was in fact relieved by heavy imports from abroad. It was not the Bombay and Karachi consumers who derived the greatest benefit from the embargo, yet it is they, and they only, who might have to pay more for the coal they buy if the duty is raised. If an industry is subjected in the national interests to some special restriction by which it is injured, it may have a valid claim to special assistance later on, but not necessarily to assistance in the form of a protective duty. It was the export trade which suffered from the embargo, and the measures which might make its recovery possible are not within the scope of this enquiry. Whatever they may be, a protective duty on coal is not one of them.

The prejudice against Indian coal in overseas markets.

44. The best Jharia coal, it is claimed, is intrinsically superior to Transvaal coal and as good as Natal coal, yet consumers who are content to pay Rs. 17-8 a ton (this figure includes the duty of 8 annas a ton) for Transvaal coal, and Rs. 18-8 and Rs. 19* for Natal coal, will not pay more than Rs 16-8 a ton for the best Jharia. This is said to be due to a prejudice created by the condition and quality of some of the coal shipped to Bombay in recent years at the time when licences were necessary. Protection is therefore needed until consumers have realized that Indian coal is worth buying and can be obtained of satisfactory quality. It is obvious indeed that, if the facts are as stated, protection is no more than a temporary expedient, the need for which will soon disappear. If the Indian mines could sell the best Jharia coal in Bombay for Rs 17 a ton, they would realize as high a price at the pithead as they can for coal sold anywhere else in India, and there would be no difficulty in doing this with Transvaal coal at the same price, if the purchaser believed that the Jharia coal was worth Re 1 more. Unfortunately he has still to be convinced of the fact.

The 'prejudice' justified by actual quality of much Indian coal sent to Bombay and Sind.

45. Whatever the reasons for the 'prejudice' may be, there is no doubt at all as to the facts. Many consumers in Bombay and Karachi will not buy the best Indian coal in preference to Transvaal and Natal coal unless the difference in price is at least Re. 1 a ton in the first case and Rs. 2 or Rs. 2-8 a ton in the second. The evidence taken by the Coal Committee and by the Board in this enquiry shows definitely that, consumers in Bombay and Sind dislike Indian coal because the supplies which reached them in the past were often of inferior quality, or not what they were represented to be. As the Coal Committee put it, "The Bombay importer has to be convinced not that there are good Indian coals but that he can be certain of getting them." The higher price he pays for South African coal is to all intents and purposes an insurance premium paid to ensure

* The Mining Federation give Rs. 19 a ton as the c i.f. price of Natal coal which the duty would increase to Rs. 19-8-0. The evidence indicates, however, that the price is actually a little lower.

that the quality is right. The opinion of the consumer is weighty, for his sole desire is to get the best value he can for his money, and he has no motive for paying a higher price unnecessarily. It is not uncommon to find that imported commodities command a higher price than similar goods made in India, and where the Indian industry is new, the fact may often be due to a prejudice in the mind of the purchaser. But the dissatisfaction with Indian coal cannot be explained in this way. It is deeply felt in markets which for many years drew the bulk of their supplies from Bengal and by purchasers who had been in the habit of using nothing else. If they consider that Bengal coal is inferior to imported coal, it must be because the coal they received was in fact inferior. We do not of course suggest that all the Indian coal shipped to overseas markets in recent years has been unsatisfactory, for, in the words of the Coal Committee, "exporters who tried to maintain a high standard have suffered from the action of those who neglected everything but the chance of immediate profit." But the depth and unanimity of the feeling expressed by witnesses to the Coal Committee in every overseas market except perhaps Madras and Rangoon, cannot be accounted for except on the supposition that the evil had gone far, and that a considerable amount of unsatisfactory coal was leaving the port of Calcutta.

Explanation of the 'prejudice' given by the mine owners.

46. Both the Mining Federation and the Mining Association have endeavoured to account for the prejudice against Indian coal, but their explanations are inadequate. The specific question put to them was:—

> "Do you consider that the prejudice referred to is justified by the condition and quality of the coal actually sent to Bombay in recent years?"

To this question the Federation gave the following answer:—

> "This again is a question of more or less historical interest and is little instructive to study now. It can nevertheless be admitted that in the years 1919 and 1920 when coal prices were high, the shippers who were generally middlemen had no doubt to make up a composite cargo and ship a mixture of different grades of coal in order to adjust prices. But the real difficulty which is now experienced by the Bengal coal trade in retrieving its position in Bombay is not ultimately one arising out of these circumstances but is such as is attendant on any attempt on the part of any trade to displace competition which has captured a market."

The Association's reply to the same question is as follows:—

> "Several cargoes of 'mixed' inferior coals which were shipped in the early days of the post-war period might have

helped to create this prejudice. At this time, anybody —whether a Colliery owner or not—who wished to ship coal was granted a licence, no check being put on quality. In this connection, the difficult conditions under which ships were loaded in past years by reason of the uncertain and short wagon supply must receive serious consideration."

In oral examination these replies were to some extent amplified, but did not become perfectly explicit. Something was said of the misconduct of the middlemen who handled the trade of the overseas markets, of the inadequate wagon supply which often made it impossible to draw shipments from the most suitable collieries, and of the restrictions to the free movement of traffic in the first four years after the war (*e.g.*, the necessity of obtaining licences for exports to Bombay and Karachi), but it was not clearly explained how these restrictions had produced such unfortunate results.

Dissatisfaction with Indian coal not due mainly to shipment conditions.

47. It will be seen that both the Federation and the Association attribute the unpopularity of Indian coal to the poor quality of part of the coal shipped in the post-war years, and the Federation specifically mention the shipments of 1919 and 1920. It is certainly probable that the 'prejudice' grew up then, and in 1921 and 1922, when foreign supplies again reached Bombay, purchasers were in a position to contrast the quality of British and South African coal with what they had been receiving from Bengal. But in 1919 and 1920 Bombay was getting only a fraction of its requirements by sea. In the two years from April 1919 to March 1921 the quantity of Bengal and Bihar coal transported to Bombay by rail was nearly four times* as large as the quantity shipped from Calcutta to the same destination. If the quality of the coal sent by rail had been satisfactory in all respects, it is impossible to believe that the condemnation of Bengal and Bihar coal in Bombay would have been so hearty or so unanimous. It would be unfair to suggest that the conditions of the early post-war years had nothing to do with the unsatisfactory quality of the Indian coal supplies at that time. Unquestionably, both the restrictions on shipping and the wagon shortage made it more difficult for consumers to get the coal they wanted, or any Indian coal on which they could rely. The wagon shortage in particular led to excessive stacking at the mines and consequent deterioration of the coal stacked and was responsible also for a reduction in the quantity of first class coal which could be marketed. But this is by no means the whole story.

Responsibility of the Coal industry for the unpopularity of Indian coal.

48. We do not think that the two bodies, who represent the coal industry in Bengal and Bihar, have been able to show that the mines are innocent sufferers in this matter, and that the whole responsibility rests elsewhere. It is no

* 1,661,837 tons by rail as against 454,358 tons by sea.

sufficient explanation of the 'prejudice' that a few bad cargoes were shipped in the early days "of the post-war period." The feeling against Indian coal is far too widespread and far too deep-rooted to be accounted for in this way. It extends to every overseas port to which Bengal coal was exported, but it is not by any means confined to these ports. Again and again during the Board's enquiries (*e.g.*, into steel and cement) witnesses who receive their coal by an all-rail route have complained of a marked deterioration in the quality of the Indian coal supplied to them in the first years after the war, and the consequent difficulties with which they were faced. During the first three years after the war the demand for coal was insistent, and an absolute shortage was constantly threatened. A good price could be obtained for almost any quality of coal, and the temptation to push sales at the expense of quality must have been very great. It would seem that the temptation proved too strong for many suppliers, and that much indifferent coal found its way to the various markets. If this be so—and we do not think the evidence permits any other conclusion—the mine owners cannot fairly ask that the results of the mistakes made should be rectified entirely at the public expense or at the expense of the consumer. On the recommendation of the Coal Committee rebates have been granted which reduce the cost of transporting coal to Bombay and Karachi by 11 annas a ton, and a Grading Board has been established whose certificates should do much to satisfy importers that the coal they buy will be what it purports to be. These are the obvious measures for overcoming the 'prejudice' which is the only hindrance to the free sale of Indian coal in Bombay and Sind, and if the coal owners desire still further assistance, the onus lies heavily upon them to show that they themselves are not partly responsible for the unpopularity of Indian coal. We do not think they have succeeded in doing so.

Unfairness of compelling consumer to purchase Indian coal.

49. If, as we believe, the dislike of Indian coal in Bombay and Karachi is grounded not on prejudice but on the actual condition and quality of past supplies, a method of assisting the industry which operates by penalizing the consumer is not free from objection. We do not lay great stress on this point, for, as we have already explained, the increase in price even at Bombay and Karachi is likely to be quite small. It is worthwhile, however, to remember what the consumer's point of view may be. He turned to South African coal because he so often received bad coal from Bengal and Bihar, and the fact that he got bad coal in the past will not seem to him a good reason why the coal he prefers should be made dearer, or why he should be coerced into buying the coal that he found unsatisfactory. It is hardly a sufficient reply to argue that he will be getting an equally good or better coal at a price no higher than he pays for Transvaal coal at present. The proof of the coal is in the burning, and if he is satisfied that he will get good Indian coal, he will be ready enough to buy. He may need

a little persuasion but in every branch of trade it is the business of suppliers to keep in close touch with their markets and take such steps as may be necessary to attract custom. It is not clear that the Indian Coal industry has been fully alive to the needs of the situation, or sufficiently energetic in dealing with it. The Coal Committee in paragraph 120 of their Report, after mentioning that the number of firms engaged in the coal trade in the overseas ports was small, wrote—

> "We cannot but think that this fact should have made it comparatively easy for the exporters of Indian coal to renew touch with their old markets when the embargo was removed had they taken energetic steps to that end immediately. If they had done so, they would have learnt at once of the dissatisfaction felt with the quality of Indian coal and could have taken immediate steps to remove the prejudices which lapse of time has only made more deeprooted and consequently more difficult to eradicate. We would strongly emphasise that, if the exporters of Indian coal are to recover and to retain their overseas markets, they must endeavour to secure closer personal contact with those markets than they have had in the past. It is not necessary, and it would be very expensive for the trade, to have permanent representatives at the principal overseas ports, but if frequent visits were paid to those ports by representatives of individual firms or of a combination of firms, they should, we consider, have valuable results. In Bombay, for example, they might enable exporters of coal to get into direct touch with consumers to the mutual advantage of both."

Probable increase of shipments of Indian coal to Bombay and Sind without protection.

50. Our conclusion is that the Coal industry cannot fairly ask Government to do more than it has already done to reinstate Indian coal in the good opinion of Bombay and Karachi importers, and that, in the special circumstances of the case, a method of assistance which might lay a burden on the shoulders of the consumer is unfair. But there is another aspect of the matter (already mentioned in Chapter II, paragraph 29) which deserves attention. It is not likely that imports of foreign coal into Bombay and Sind will ever cease altogether, for there will always be some consumers who have definite reasons for preferring a particular foreign coal, *e.g.*, the importers of the highest quality of Welsh steam coal. But it certainly seems probable that, even without protection, Indian coal will before long supply a proportion of the total demand in Bombay and Karachi at least as large as it did before the war. It has been shown in Chapter II how during the last three years Indian coal has been steadily recovering its position in these markets, and now that transport charges have been reduced and a Grading Board established, progress should be

accelerated.* The reductions in the coal freight by rail to Bombay announced by the Commerce Member, when introducing the Railway budget for 1926-27, should also give material help. From the 1st April 1926 the freight on coal from Jharia to Bombay will be Rs. 13-12-0 a ton whereas the transport charges *viâ* Calcutta amount at present to Rs. 12-12 a ton made up as follows:—

	Rs.	A.	P.
Charges up to the time of shipment . . .	4	8	0
Sea freight	6	8	0
Landing charges	1	12	0

In addition there is the cost of conveying the coal from the bunder to the mill which, according to the evidence taken by the Coal Committee, is about Rs. 2-8 a ton. The terminal charges on coal brought by rail to a mill and unloaded in the mill siding are not precisely known, but it would seem that, even with the sea freight as low as Rs. 6-8 a ton, the all-rail route to the Bombay mill will be the cheaper and would certainly be so if the sea freight were higher. This fact may of itself serve to hold the sea freight at a reasonable level. If the shipments of coal from Calcutta to Bombay and Karachi were to increase by about 100,000 tons, 75 per cent. of the demand in these areas would be met by Indian coal, and this is the actual percentage of Indian coal supplied in 1910-11 and 1911-12 when the imports of South African coal were negligible. If the coal sent to these markets is in fact superior to Transvaal coal, it should not be very long, with prices at their present level, before 100,000 tons of foreign coal are displaced by Indian coal. But in that case the increase in output which protection can give is not 300,000 tons but 200,000 tons for an increase in sales of 100,000 tons at the expense of foreign coal is probable whether protection is given or withheld.

National importance of the Coal industry and unsalability of second class coal.

51. The remaining reasons suggested for according exceptional treatment to the Coal industry hardly require detailed discussion. It is argued by the Mining Federation that coal deserves protection on national grounds, and that

* The following table compares the figures for January 1926 with the monthly average of 1925 —

	January 1926. Thousands of tons.	Monthly average 1925 Thousands of tons.
Imports	22·9	40·7
Exports	33·3	18·0
Excess of imports	..	22·7
Excess of exports	10·4	...
Shipments from Calcutta to Indian ports	116·0	85·5

The figures are interesting but it is unsafe to found any inference on the results of a single month.

therefore the conditions which should ordinarily be satisfied, are not applicable. It is a sufficient reply to this argument that, while it is unquestionably important that India's coal resources should be developed on an adequate scale, so that they may be ready for use in an emergency, it is a very small matter whether the annual output of Indian coal is 21 million tons or 21·3 millions. In this case protection cannot lead to any development worthy of the name. Another plea put forward by the same body is that, at present prices, second class coal cannot be sold except at a loss, and if protection is not given, will disappear from the market altogether. This line of argument admits of at least two answers. It is exceedingly doubtful whether protection would do anything at all for second class coal. It is possible that, if more first class coal were sent to Bombay and Karachi, it would be taken off the market in Bengal and Bihar and so create a larger demand for second class coal. The evidence we have taken, however, rather points to an opposite conclusion. It was stated by the representative of the Mining Association that the Bombay and Karachi demand could be met by an increased production of first class coal which would leave the amount of first class coal on sale in Bengal and Bihar undiminished. This may very well be so. The difference of Rs. 3 a ton between the price of first and second class coal means a percentage difference varying from 50 per cent. at the pithead to 30 per cent. at Calcutta and second class coal may be equally good value, price for price, in that area. But it is quite another matter in Bombay or Karachi where the percentage difference to the consumer is less than 20. Only first class coal can stand the heavy freight charges, and it is quite possible that an increased demand at Bombay could be met by a larger output of first class coal. The excess quantity is not produced at present because it does not pay to raise it in the face of the competition of second class coal in the vicinity of the coal fields. A new demand from an area where second class coal stands no chance, might make it worth while to raise more first class coal. The second objection is of a different kind. It is not a merit in coal to be second class, and the only reason why such coal finds a sale at any time is because enough first class coal to go round cannot be raised at competitive prices. It is quite impossible for Government to determine what quality of coal is worth producing, and to find a market for all coal that does not fall short of the standard. That is a matter which must be left to the operation of the ordinary economic laws.

Summary of the reasons against a protective duty on all imported coal.

52. Our examination of the proposal to place a protective duty on all imported coal has led us to the conclusion that the case has not been made out. The first condition laid down by the Fiscal Commission is satisfied for the industry possesses great natural advantages, but the second condition is not satisfied, for protection would not result in development. The increase in the sales of Indian coal would not exceed 300,000 tons at the outside, and an increase of at least one-third of that amount is probable even if the duty is not raised. The third condition is satisfied in

this sense that the best Indian coal could even now be sold at Bombay and Karachi in competition with South African coal at a price which would give the colliery owner the same price at the pithead, as for coal sold anywhere else in India, were it not that many consumers in these two cities will not buy it, unless its price is about Rs. 2 a ton less than the price of the best South African coal. The best Indian coal is not in fact inferior to the best South African coal, but the opinion of importers in the west of India is justified by the condition and quality of much of the coal received from Bengal in recent years. It is for the mine owners to remove the prejudice of which they complain, and there is no reason why they should not succeed in doing so before long, now that coal certified by the Grading Board when shipped from Calcutta receives a rebate which reduces the cost of transport by 11 annas a ton. The bad condition and quality of much of the coal shipped to Bombay and Karachi in recent years is attributable in part to the restrictions imposed on coal traffic in the first years after the war, but is due also to the default of the coal industry itself or of some of its members. In these circumstances, it would be unfair to put pressure on consumers in western India by making the coal they prefer more expensive. The depression from which the industry is suffering is due not to any falling off in the demand for coal but principally to over-rapid development—the result of a period of high prices. This depression is not in itself a sufficient reason for imposing a protective duty, and none of the reasons for according special treatment to the industry suggested by the colliery owners warrants such action. An increase in the duty would leave prices in the greater part of India unaffected, and even in Bombay and Karachi the maximum increase possible at present is about 12 annas a ton. A protective duty on all imported coal is not, therefore, open to attack on the ground that it would be a heavy burden upon industries. But in principle all measures which tend to raise the cost of fuel are prejudicial to industrial development, and should not be taken unless the reasons for them are cogent and convincing. For these reasons we are unable to recommend the imposition of a protective duty on imported coal generally. There still remains the question whether a duty on South African coal only could not be justified on the ground of unfair competition and to it we now turn.

CHAPTER IV.

Proposed countervailing duty on South African coal.

Complaint of the mine owners that the competition of South African coal is unfair.

53. From the figures in Appendix III it will be seen that two-thirds of the coal imported into India annually is South African, and it is these imports which are the special grievance of the Indian coal industry. The mine owners contend that, without substantial assistance from the Union Government, South African coal cannot compete successfully with Indian coal in any Indian market. The South African railways are the property of the State, and in order to develop the export trade the coal freights on these railways, it is said, have been so adjusted that export coal is conveyed to the ports at a rate which is uneconomic and does not cover the cost of transport. The concession to the export trade takes the form of a rebate of a very large part of the freight paid on all coal that is exported, and the plea advanced is that this rebate is indistinguishable from a subsidy. The competition of South African coal is therefore unfair, and the Indian coal is entitled to protection against it. This claim, it is urged, would still hold good even if no sufficient reasons were found for imposing a protective duty on foreign coal generally. The tariff legislation of many countries has armed the executive Government with power to prevent the injury which domestic industries must suffer if bounty fed or subsidized commodities are allowed free entry, and the principle is accepted both by countries which have definitely adopted protection and by some which have not. The Indian Tariff Act indeed already contains a section (8A), inserted in 1899, which contemplates the impositions of a countervailing duty when bounties are paid, directly or indirectly, on the exportation of articles from other countries, and the power given by the Legislature should now be exercised. Such in substance is the case which we have to examine, and it will be necessary first to explain what the facts are as regards the South African railway rebate, then to determine, as far as our information permits, whether the rebate amounts to a bounty or subsidy, and finally to consider whether it is advisable in the circumstances to impose a countervailing duty on South African coal.

Coal freights on the South African railways.

54. The history of the railway freight on coal exported from South Africa is long and complicated and has been fully discussed in a separate note by Mr. Ginwala. It will suffice to state the main facts more briefly here. The exact date when special concessions to export coal were first granted by the South African Railway Administration has not been ascertained, but they were certainly in existence before 1916 and probably as early as 1913. There have been several variations in the system, but the general

outlines have remained the same. There is, in the first place, the ordinary freight on coal which is consumed in the country itself and is neither bunkered nor exported; there is, in the second place, a uniform* freight on bunker and export coal, which before the war was lower, and since the war has been higher, than the ordinary rate; and, in the third place, a rebate of part of the freight is granted on all coal exported and part of the coal bunkered. In effect, therefore, there are three separate tariffs applicable respectively to—

(1) coal for internal consumption,

(2) the bulk of the bunker coal, and

(3) all export coal and part of the bunker coal.

The following table gives the actual rates charged at various dates per ton of 2,240 pounds† :—

—	Domestic rate.	Bunker rate.	Export rate	Difference between the domestic rate and the export rate.	Difference between the bunker rate and the export rate.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Up to 1916 . .	0 10 11½	0 6 8	0 5 6½	0 5 5	0 1 1½
1920 . .	0 12 7	1 3 0	0 9 1	0 3 6	0 13 11
1921 . .	0 12 7	0 15 5	0 6 3½	0 6 3½	0 9 1½
1922-25 . .	0 12 7	0 15 0	0 6 3½	0 6 3½	0 8 8½

The special concessions granted in respect of bunker coal are as follows:—

(1) In 1920 the export rebate was granted on coal bunkered by vessels which carried full cargoes of export coal.

(2) In 1921 the concession was extended to vessels carrying cargoes of export coal of not less than three quarters of their total capacity.

(3) In 1922 it was again extended to vessels carrying 5,000 short tons (4,464 long tons) of export coal whatever their capacity.

(4) Finally in 1925 the rebate, which had hitherto been paid only on the bunker coal required on the outward voyage, was also granted on coal burnt on the return voyage to South Africa.

* In 1921, different rates were applicable to bunker and to export coal, but the statement in the text is correct for other years.

† Throughout this Chapter the tons referred to are "long" tons of 2,240 lbs. except when "short" tons (2,000 lbs.) are specifically mentioned.

Difference between export and domestic freight—the primary measure of assistance given to export trade.

55. Except in 1921 (when different rates were fixed for bunker and export coal) the amount of the rebate granted is equal to the difference between the bunker rate and the export rate in the table in paragraph 54. In all the discussions on the subject that have come to our notice, it has been assumed that the rebate is a correct measure of the special assistance which the South African coal trade receives. This view is, we think, erroneous, for it ignores the fact that up to 1916, the bunker rate was very much lower than the ordinary rate, and since the war appreciably higher. If the rebate is equated with the bounty, the result is to under-estimate the concession granted to the export trade before the war, and to exaggerate the help it has received since the war. The natural measure of the special assistance granted to export coal is (subject to certain qualifications) the difference between the domestic rate and the export rate. If export coal paid the usual domestic rate it would obviously be impossible to argue that it was receiving any special help from the Government, and no complaint of unfair competition could stand. It is only in so far as export coal is charged less than the ordinary domestic rate that it receives specially favourable treatment. It will be seen from the table in paragraph 54 that (except in 1920 when it was smaller) the concession, both before and after the war, means the transport of export coal at half the domestic rate.

The higher rate on bunker coal

56. The extent of the special help which the South African export coal trade receives is measured primarily by the difference between the domestic and the export railway freight from the coal fields to the ports, but there are two other factors to be taken into account of which the first is the higher rate charged on bunker coal. We have alluded in earlier paragraphs to the fact that the bunkering trade is very sensitive to price, and that an increase in the price of coal at one port is likely to drive the trade to cheaper markets. In these circumstances it is natural to enquire how it has been possible for the South African Railways to charge bunker coal at a rate which exceeds the domestic rate by 2s. 5d. a ton. The explanation is, we think, to be found in the long distances which separate South African ports from those of Australia, South America, India and the Far East, and compel ships that touch at a South African port to replenish their bunkers before proceeding. Moreover, even with the higher railway freight on bunker coal, Durban and Delagoa Bay may still be relatively cheap bunkering ports as compared with any alternative port to which vessels might resort. In these circumstances it may be quite possible to increase the freight on bunker coal to some extent without driving away trade and so causing loss of traffic to the railways. The higher rate on bunker coal must, we think, be regarded as an application of the familiar principle "all that the traffic will bear," a maxim which has much to do with shaping railway tariffs in most countries. If our view is correct, the increase in the

bunker rate at once makes it possible to effect an equivalent reduction in the export rate without loss of revenue, and if the reduction in the export rate led to larger exports, the railways would gain from the resulting increase in the traffic they carried. In such a case the adjustment of rates directly benefits the income of the line, and would be sanctioned by any railway administration, whether it was acting on behalf of the shareholders of a company, or, as in South Africa, on behalf of the national Government. No question is involved except such as constantly lead to freight changes on all railways. During the three years 1922-23 to 1924-25, the annual exports of coal from South Africa averaged 1,592,209 tons, while the coal bunkered at South African ports amounted to 1,578,586 tons a year, *i.e.*, for every ton of coal exported a ton of coal was bunkered. It follows that, so long as the bunker rate was higher by 2*s*. 5*d*. a ton than the domestic rate, the export coal could be carried at a rate lower by the same amount without loss of revenue, because the railway receipts on bunker and export coal together would be the same as if both had been carried at the domestic rate. This factor must, we think, be taken into account in determining what subsidy, if any, the coal exported from South Africa receives.

Payment of the export rebate on bunker coal used by ships carrying export coal

57. In the last paragraph it was assumed that the whole of the coal bunkered in South Africa was carried at the bunker rate, and the fact that large quantities of bunker coal receive the export rebate was ignored. It is not possible to estimate, except very approximately, what proportion of the bunker coal is carried at the export rate. We are informed* that the voyage from Durban to Bombay occupies about 17 days and that the coal consumption of a vessel of 5,000 tons capacity steaming 10 miles an hour would be at the rate of 25 to 30 tons a day. The consumption of a vessel of 10,000 tons capacity would be about double. On that basis a vessel carrying a full cargo would burn during the voyage a quantity of coal equal to 9 per cent. of the coal she carried. But there are numerous complications for which some allowance must be made. The vessel may be carrying coal only to three-fourths of her capacity or, if her capacity exceeds 6,000 tons, may be carrying only 4,500 tons.† Also the vessel may be carrying part of the coal for the return journey in addition to the coal required on the journey out. In all these cases the percentage would be higher than for a vessel making a single voyage with a full cargo. Thus, for example, if a ship of 10,000 tons capacity with a cargo of 4,500 tons of coal carried bunker coal sufficient for a three weeks voyage the percentage would be 25. The extent to which the cost of the sea transport of coal would be reduced by the

* Messrs Mackinnon Mackenzie and Company state that "the daily consumption at sea of a reasonably up-to-date cargo steamer of the capacity of 5,000 tons would be about from 25 to 30 tons, and for a steamer of 10,000 tons from 50 to 60 tons. These figures are based on a daily run of about 240 miles, *i.e.*, 10 knots per hour" For the distances between Calcutta, Durban and Delagoa Bay and certain ports, see Appendix VIII.

† The minimum quantity which the larger vessels must carry in order to earn the rebate is 4,164 long tons.

rebate on bunker coal carried by coal exporting vessels would vary with every voyage according to the proportion of coal carried, and according to several other factors none of which can be exactly determined. In these circumstances all that is possible is to give a maximum figure, and we do not think that the quantity of bunker coal, which receives the export rebate, can exceed 20 per cent. of the quantity of coal exported. That proportion would be high enough to enable a 5,000 ton vessel with a full cargo to perform the double journey from Durban to Bombay and back, a 10,000 ton vessel with 5,000 tons of coal to perform the outward voyage only, and a vessel loaded to three-fourths capacity to perform the outward voyage and part of the return voyage. The proportion of bunker coal which actually receives the export rebate may be less than 20 per cent. on the average but to what extent it is impossible to say.

Sacrifice of revenue by the South African railways in the interests of the coal export trade

58. If 20 per cent. of the bunker coal is carried at the export rate, then the revenue sacrifice by the South African railways on behalf of the export coal trade can be estimated. For every ton of coal exported four-fifths of a ton of bunker coal is carried at the bunker rate and one-fifth of a ton at the export rate. The calculation is as follows:—

	£	s.	d.
Freight paid on 4/5ths of a ton of coal at 15 shillings a ton	0	12	0
Freight paid on $1\frac{1}{5}$th tons of coal at 6*s.* $3\frac{1}{2}$*d.* a ton	0	7	$6\frac{1}{2}$
Total freight paid on 2 tons of coal of which one ton is exported and one ton is bunkered	0	19	$6\frac{1}{2}$
Freight on 2 tons of coal at the domestic rate—12*s.* 7*d.* a ton	0	25	2
Revenue sacrificed for every ton of coal exported .	0	5	$7\frac{1}{2}$

The basic assumption is that, so long as the freight paid on bunker and export coal together is not less than what would be paid at the domestic rate, no question of bounties or subsidies can arise. The above calculation shows that, unless the bunker coal carried at export rates is more than one-fifth of the total quantity of coal bunkered the subsidy cannot exceed 5*s.* $7\frac{1}{2}$*d.* a ton. The sacrifice of revenue by the South African railway administration on the bunker and export coal together seems to us the most accurate test to apply in determining the special assistance which the export trade receives. So long as no revenue is sacrificed, an adjustment of railway rates, which favours export coal, cannot fairly be regarded as equivalent to a bounty. It may be argued on the other hand that, though the grant of the rebates on bunker coal carried by coal exporting vessels is intended to lead to a reduction in the sea freight on South African coal, it may not in fact do so. It is a sufficient reply that the only conceivable object of giving the concession is to obtain a reduction, and that the system has remained in force for five

years, and has been three times extended during that period. It is a fair inference that, at any rate in the opinion of its authors, the concession has been effective in keeping down freights.

Possibility of reductions of rail freight on particular commodities with the object of increasing traffic generally.

59. The nett result of our examination of the figures is that the higher freight on bunker coal rather more than compensates for the concession by which the export rebate is paid on the bunker coal carried by coal exporting vessels, and the reduction in rates, which may prove to be a bounty or subsidy, is brought down from 6*s*. 3½*d*. to 5*s*. 7¼*d*. a ton. The question may be raised, however, whether the remission by the South African railways on export coal of half the ordinary freight could not be justified on ordinary business principles as a means of securing additional traffic whether there was a sacrifice of revenue or not. Arrangements of this kind are not uncommon on any railway system, and it may pay a railway to convey a particular commodity at something less than the actual cost of transport, if by doing so the traffic passing over the line is increased. The Agent of the Great Indian Peninsula Railway explained to the Coal Committee that he had been influenced by this factor in reducing the coal rates from the Central Provinces collieries. "Our interest" he said "lies not only in moving the coal, but in keeping the collieries alive. If we increase the output by giving reduced rates to our collieries, we probably double the traffic over that section. If the collieries die out, we lose the incidental traffic such as hardware, piecegoods, foodstuffs, etc. When we move coal from collieries on our own line there is a repercussion on other classes of traffic on our line; when we take coal from other railways, there is no such result."* Unquestionably similar considerations must influence the South African railway administration in fixing the coal rates on their system and the rebate on export coal has raised the exports by nearly 1½ million tons a year. Can the view be accepted then that the 50 per cent. reduction of the railway rate for export coal is merely an ordinary business arrangement which would be adopted by any other railway in similar circumstances? We do not think it can, and we shall endeavour to explain our reasons for holding otherwise.

Domestic rate on coal too low to admit of drastic reductions on export coal.

60. Coal is a commodity which in every country the railways must carry at a rate which is low as compared with the rates on almost all other commodities. The cost of fuel is vital to industries everywhere, and high rates on coal mean slower industrial progress and consequently, in the long run, less traffic for the railway itself. If ordinary coal rates cover the actual cost of transport, it is as much as a railway can hope for, and if they fail to do so, it is usually possible to make up the difference by higher rates on other commodities. It is evident from the figures quoted in the opening paragraphs of Mr. Ginwala's note, that the South African Railways conform to

* Evidence given before the Indian Coal Committee, Volume III, page 188.

the ordinary rule, since the domestic rate for coal is lower not only than all other domestic rates except on lime and on bricks, stone and mining poles, but also than the special export rates for any commodity except (for certain distances) maize and iron ore. It is a fair presumption, therefore, that the ordinary domestic rate for coal, which exceeds the pre-war rate by only 15 per cent., has been fixed as low as it reasonably can be on ordinary business principles, and is no more than sufficient, if it is sufficient, to cover the actual cost of transport. But if so, the considerations outlined in paragraph 59 have already come into play in fixing the ordinary domestic freight, for it is precisely such considerations which determine what a fair commercial rate for a particular commodity is. When the ordinary rate is already very low, there is the less margin for further reductions. To the South African railways considered merely as a commercial concern, the extra traffic can hardly be worth the very high price paid to obtain it.

Only a substantial freight concession could develop South Africa's export coal trade

61. It may be that, as a purely railway proposition, it would be sound policy to make some reduction in the ordinary coal rate if in that way a large export trade could be developed. But here there are two difficulties, for, in the first place, it does not seem possible that in this way the sacrifice of half the freight could be justified, and, in the second place, unless the freight concession were very large, South African coal could not compete in the markets of southern and eastern Asia.

This will be evident from the following table which compares the charges which at present have to be met on South African Coal before it reaches Bombay, with those which would be incurred if the rebate were withdrawn.

	Present charges per ton	Charges per ton if the rebate were withdrawn.
	£ s. d.	£ s. d.
Rail freight	0 6 3½	0 12 7
Port charges in South Africa . .	0 1 2½	0 1 2½
Sea freight	0 10 0	0 11 3*
Other charges (estimated) . . .	0 1 0	0 1 0†
	0 18 6	1 6 0½

* We have estimated that the bunker coal carried at the export rate is one-fifth of the coal exported from South Africa. The difference between the domestic rate and the export rate is 6*s.* 3½*d.* a ton and one-fifth of this sum is 1*s.* 3*d.* It is assumed in the table that the sea freight from South Africa is reduced to this extent.

† The "other charges" are not known precisely but can hardly be less than 1*s.* a ton.

It will be seen that Natal coal would have to bear charges aggregating £1-6-0 a ton, whereas the c.i.f. price of Natal coal is about Rs. 18 or £1-7-0 a ton. However cheaply coal can be mined in South Africa, it certainly could not be raised at 1*s*. a ton. It is evident that, without a very substantial reduction in the transport charges, South African coal could not come on the Bombay market at all. The inference to be drawn is that the extent of the freight concessions to export coal has been determined not by the revenue which the railways could afford to give up, but by the assistance the export coal trade required if it was to sell freely in India and the Far East.

South African rebate on export coal introduced in the interests of the coal industry rather than to bring traffic to the railways.

62. It is of course impossible in this enquiry to ascertain exactly how the finances of the South African railways are affected by the rebate on export coal, or to determine the motives underlying the action taken. But there is clear evidence that the development of a large export trade in coal is the deliberately adopted policy of the South African Government, who in 1920 set up a Commission to investigate the possibilities of the export trade and to devise measures for its expansion. The Commission submitted its report in 1921 and recommended *inter alia* that export coal should be graded and steps taken to obviate the risk of spontaneous ignition which had hampered the trade in the past. Effect was given to the proposals of the Commission in the Coal Act of 1922 which set up a Grading Board and prohibited the export of ungraded coal. The rebate on export coal, it is true, was first paid several years before the Commission was appointed and is not covered by their recommendations, but it is nevertheless an integral part of the same policy. The evidence points to the conclusion that it is granted not as a mere matter of railway economics, but also on commercial and industrial grounds, by an authority which takes a broad view and considers the national interests as a whole. Mr. Ginwala has drawn attention to the fact that the railways and harbours of South Africa are under the control of a unified administration, behind which stands the Union Government, and it is obvious that in these circumstances railway rates can be adjusted in order to facilitate the attainment of what are held to be important national ends. It is impossible to determine the lowest freight at which a South African railway administration working the lines for the profit of its shareholders would carry export coal, but in our view the evidence justifies the conclusion that the adjustment of railway freights so that on export and bunker coal together the freight is little more than half of what would be charged if the coal were intended for internal consumption, is a measure deliberately taken as a means for developing the Coal industry, and not primarily as a means of securing additional traffic for the railways.

Export bounty on South African coal not less than Re. 1-8-0 a ton

63. Our finding as regards the competition of South African coal is that the export trade does in fact receive special assistance in the form of a rebate of railway freight, and that although part of the difference between the export rate and the domestic rate can be justified on the ground that, directly or indirectly, it pays the railways to make the reduction, there is a balance which cannot be explained in this way and must be regarded as a bounty. The extent of the subsidization cannot be gauged exactly, though we have given reasons for believing that 5s. $7\frac{1}{2}d.$ a ton is a maximum figure. For practical purposes, however, it is not important to ascertain precisely what the amount may be. It was explained in paragraph 35 that an increase in the duty on coal from 8 annas to Rs. 2 a ton would do all for the industry that protection can do, and we think that the export bounty received by South African coal cannot be less than 2*s.* 3*d.* which is the equivalent of Re. 1-8. The issue must therefore be faced whether a countervailing duty of Re. 1-8 a ton should be placed on coal imported from South Africa.

The existence of a bounty does not of itself justify the imposition of a countervailing duty

64. It is held in some countries that as soon as the existence of a bounty is established, a duty should automatically be imposed, and that it is needless to make any further enquiry. Thus the Tariff laws of the United States of America* and the Dominion of Canada declare that countervailing duties *shall* be levied if unfair competition exists, whereas the Japanese, Australian, New Zealand and South African laws, and section 8A of the Indian Tariff Act, merely confer a discretionary power on the executive Government and provide that in certain circumstances such duties *may* be levied. In the latter countries it is generally provided that injury or detriment to a home industry must be established before action can be taken, and it follows, of course, that the imposition of the duty is not automatic but involves an enquiry into matters other than the payment of bounties. In India, where the power conferred by the Legislature is purely discretionary, and the law lays down no special conditions other than the payment of bounties, direct or indirect, it seems to us that it ought to be exercised in general accordance with the policy of discriminating protection approved by Government and by the Legislature. In countries such as Australia, where a strongly protectionist policy has been followed for many years, action may often be taken as soon as a *primâ facie* case of unfair competition and consequent injury to industries is made out. But it does not follow in the least that India, where the economic policy is different, should adopt the same course. We do not suggest that the issue should be decided on abstract grounds or by any rigid application of the conditions by which requests for protection are ordinarily judged. But we hold that there are several points to be examined before the

* Fordney McComber Tariff Act, 1922, section 303.

authority competent to impose a countervailing duty under the Indian law decides to take action.

Procedure for safeguarding industries in the United Kingdom.

65. Since the war action has several times been taken in the United Kingdom to safeguard industries, which suffer from unfair competition, and it may be worth while to explain what the points are which are investigated before a decision is reached, for they offer valuable guidance as to the circumstances relevant in an enquiry into unfair competition. Part II of the Safeguarding of Industries Act gives power to the Board of Trade to impose a duty (subject to confirmation by a Resolution of the House of Commons), and lays down the procedure to be followed. It will not be necessary, however, to examine the provisions of the Act in detail, for the enquiries held since February 1925 have been conducted, not under the provisions of the Statute, but under executive order. Each industry that applies is the subject of a separate enquiry by a Committee, and if the Committee recommends a duty, or an additional duty, and the Government agrees, the proposal is embodied in a Finance Bill and passed through Parliament before it becomes effective. The procedure to be followed is laid down in a White Paper (see Appendix IX), and it will suffice to note here the important points. Before the Board of Trade can order an enquiry it must be of opinion—

(*a*) that the industry is of substantial importance,
(*b*) that there is *primâ facie* evidence that the competition of foreign imports is exceptional, and
(*c*) that employment in the United Kingdom is seriously affected by the competition.

The applicant industry must also show that there are reasons for considering the competition unfair. The Board can refuse an enquiry, irrespective of other conditions, if they are of opinion that the industry is not carried on with reasonable efficiency and economy, or that the imposition of a duty would exert a seriously adverse effect on employment in other industries. Out of 34 applications for enquiries made since the White Paper was published the Board has already refused 13. The Committee appointed to make an enquiry must report on the following points:—

(1) Whether the industry is of substantial importance.
(2) Whether the foreign goods are being imported in abnormal quantities.
(3) Whether the foreign goods are being sold at prices below the cost of manufacture in the United Kingdom.
(4) Whether employment in the industry is seriously affected by the sale of the foreign goods.
(5) Where the competition is unfair, under any of the following heads:—
    (*a*) Depreciation of currency,
    (*b*) Subsidies or bounties,
    (*c*) Inferior conditions as regards labour.

(6) Whether the industry is being carried on with reasonable efficiency and economy.

(7) Whether the imposition of a duty would exert a seriously adverse effect on employment in any other industry.

(8) Whether a claim to a duty has been established.

It will be seen that unfair competition must be established before a duty can be imposed, but it is only one out of several points to be investigated. We do not suggest that countervailing duties should never be imposed unless every one of the conditions is satisfied, but we hold that all the relevant circumstances require examination before a decision is reached.

Duty on South African coal not likely to injure industries in India.

66. In the United Kingdom the effect of a countervailing duty upon other industries is always examined, and if it is likely to prejudice them seriously, the application for a duty may be refused. In India a duty of Re. 1-8 a ton on South African coal is not likely to handicap any industry materially, for though the price of South African coal might be raised by the full amount of the duty, the price of Indian coal would not go up by more than 12 annas a ton, and even this small increase is doubtful for the possibility of importing from the United Kingdom and other countries might keep the price down. We do not apprehend that the duty would inflict serious injury on industries in Bombay, and though at the present time any increase in industrial costs in that city is to be deprecated, we do not consider that a valid objection to the duty can be based on that ground. There are, however, other aspects of the case to be considered.

Success of South African coal not due entirely to the bounty.

67. A committee appointed by the Board of Trade to enquire into an application for a duty would have to report whether the imported goods were being sold at prices below the cost of manufacture in the United Kingdom. The question in this precise form is hardly applicable in our enquiry but it will serve to draw attention to a relevant point. South African coal is not being sold in Bombay at a price which is lower than the price at which Indian coal of the same quality would sell if its price were regulated solely by internal competition. The best Jharia coal, it is claimed, is as good as Natal coal which sells at Rs. 18 a ton c.i.f. Bombay, whereas internal competition would keep the price of the best Jharia coal at about Rs. 17 a ton. We cannot ignore the fact that the reductions in railway freight which South African coal enjoys would not have sufficed to displace Indian coal in Bombay and Sind had consumers been satisfied which the Indian coal they were receiving. It is not, therefore, the bounty alone which has led to a decrease in the sales of Indian coal in certain markets, but the bounty combined with the unsatisfactory quality and condition of Indian supplies in the past. An industry, which is itself partly responsible for the injury it has suffered, has not the same claim to protection against unfair competition, as an industry that is blameless, and it is no

doubt for this reason that Committees in the United Kingdom must report whether the industry is conducted with reasonable efficiency and economy.

Extent to which the sales of Indian coal would probably increase if a duty were imposed on South African coal.

68. Two other points which are specially investigated in the United Kingdom are (*a*) whether the foreign goods are being imported in abnormal quantities, and (*b*) whether employment in the domestic industry is seriously affected. Both points are concerned with the question whether the injury resulting from the unfair competition is serious. The imports of South African coal into Bombay and Sind are not more than 260,000 tons a year which is less than 2 per cent. of the coal output in Bengal and Bihar and Orissa, and the quantities are abnormal only in the sense, that, if the export trade received no special assistance, they would be even smaller. It is not correct, moreover, to assume that the benefit the Coal industry would reap from a countervailing duty can be measured by the quantity of coal imported from South Africa. We have estimated (paragraphs 21 and 50) that a duty on all imported coal could not increase the sales of Bengal and Bihar coal by more than 300,000 tons and that an increase of not less than 100,000 tons is probable in any case, as a result of the new rebates and the grading of shipment coal. South African coal is about two-thirds of the total imports, so that the maximum increase to be expected in the sales of Indian coal is 200,000 tons, or, if the increase in sales which is probable in any case be deducted, about 133,000 tons. But there is another factor to be taken into account. An additional duty on South African coal might result in increased sales not only of Indian coal but also of coal imported from other countries, and particularly from the United Kingdom. It is evident from their proposals that both the Mining Federation and the Mining Association hold this view, and on a matter of this kind their opinion is weighty. Some deduction must be made on this account, and we are unable to put the increase in the demand for Indian coal resulting from an additional duty on South African coal at a higher figure than 100,000 tons, which is less than 1 per cent. of the output of the Bengal and Bihar coal fields. It is obvious that such a duty can do little to diminish unemployment or to keep mines open which otherwise might close down.

Countervailing duty on South African coal not recommended.

69. To sum up, it can be urged in support of a countervailing duty on South African coal that its export is in effect subsidised by the South African Government, and that the duty would not seriously prejudice any Indian industry. On the other side we have shewn that no additional duty would be necessary to keep South African coal out of Bombay and Sind if Indian coal could command the price to which its merits entitled it, that without the aid of an additional duty Indian coal has gradually been recovering its old position in these markets, and is likely to do so more rapidly in the future now that the transport charges have been reduced and shipment coal is graded, and that the imposition of the duty would not

increase the sales of Indian coal by more than about 100,000 tons. In view of these facts we are unable to recommend the imposition of a duty on South African coal, and the measures already taken, *viz.*, the rebate of railway freight and port charges, will, we believe, enable the industry before long to supply as large a proportion of the demand at Bombay and in Sind as it did in 1910 and 1911 when the imports of South African coal were negligible. The adjustment of the railway freights in South Africa with the object of fostering the export trade in coal is not in our opinion a sufficient reason for attempting to shut out South African coal completely from the Indian market. It would be possible in this way to inflict some injury on South African trade, but protective duties are imposed not to injure the industries of other nations, but in order to benefit the industries of the country imposing them. The advantage to the Indian coal industry of imposing an additional duty on South African coal would be almost inappreciable, and insufficient to justify the measure proposed.

Protective duties inappropriate to the coal industry.

70. On broader grounds we hold strongly that it is idle to seek to restore prosperity to the Coal industry by means of protective duties. The one cure for its difficulties is a substantial increase in the demand such as might result from rapid industrial development in India or the recapture of the export markets, and no such increase is conceivable unless every step is taken to make coal cheap. A protective duty on coal is open to greater objection than a similar duty on any other commodity in industrial use, because an increase in its price is reflected in the higher costs of all other industries. It is no less true that of all industries the Coal industry is least able to benefit from a protective duty, for it cannot flourish alone, but can develop only in proportion to the general industrial development of the country. The imposition of a duty on South African coal would arouse hopes and create expectations that in the nature of the case cannot be realized, and would be of no service to the industry in those external markets such as Ceylon and the Straits Settlements, where the competition of South African coal is more formidable than in Bombay and Sind. The need for defensive measures against unfair competition from abroad must depend largely on the extent of the injury inflicted on domestic industries, and the greater the injury, the more important it becomes to devise a remedy. But a protective duty is not the only weapon which can be used, and often not the most effective. The imports of South African coal into India are comparatively small, but the quantities sold in the external markets are very much larger, and it is there that the coal industry has suffered most seriously. When it is a question whether unfair competition should be countered by such a duty, the true criterion to apply is not the extent of the injury suffered from the competition but the advantage to be derived from the duty. If it be the case that the bounty on South African coal is the main reason for the loss of the export markets, and if the measures already taken do not lead to their recovery, then a new issue would arise which might demand investigation. But the question of the export trade is not

before us, and we have referred to it only in order to explain why we cannot regard South African competition in external markets as a reason for imposing a countervailing duty on South African coal imported into India.

Possibility of retaliation by South Africa

71. In bringing this Report to a close we must allude briefly to one more aspect of the case. Protective duties, for whatever reason imposed, may lead to retaliatory action by the countries affected, and a duty which applies only to imports from a particular country is specially likely to produce this result. In such a case it may be necessary to consider whether the aggrieved country will be inclined to retaliate and whether it can retaliate successfully. On the first point, the probability of retaliation by South Africa, if an additional duty is placed on South African coal, we find it difficult to offer any opinion, for there are political and psychological considerations involved which are outside our scope. Something may, however, be said on the question whether South Africa could retaliate successfully. According to the Trade Returns the value of the Indian exports to South Africa and to Portuguese East Africa* in 1924-25 was Rs. 376 lakhs and the most important items are:—

	To South Africa. Rs lakhs	To Portuguese East Africa Rs. lakhs
Jute manufactures	119·9	48·7
Rice	52·4	9 9
Cotton manufactures	5·4	29 5

Apart from coal South Africa exports to India almost nothing except gold which is clearly on a different footing from other merchandise. It does not seem likely that South Africa would levy a retaliatory duty on jute, but the case of rice and cotton goods is not so clear. If the duties on these commodities were raised, a large share of the burden would fall on the Indian population of the Union, and especially those who have settled down as small traders and manufacturers, and the duty on cotton goods might be detrimental to Bombay's export trade It cannot be said that the South African Government would find it impossible to retaliate if it judged such action expedient, or that the retaliation would not be effective. If there be any risk that South Africa might in this way counter an additional duty on South African coal, it inevitably strengthens the objection to a measure from which India stands to benefit so little.

The Board's findings regarding the proposed duty on South African coal.

72. Our findings regarding the proposed duty on South African coal may be summarised as follows:—

(1) On the South African railways coal for bunkering and export is carried at a rate which is lower by 5*s*. 7½*d*. a ton than the domestic rate for the same distance.

* We have included the exports to Portuguese East Africa because part of them, though not all, must eventually reach the Transvaal through Delagoa Bay.

(2) Some reduction as compared with the domestic rate could be justified on the ground that, directly or indirectly, the railways gained from the increase in traffic, but it is not possible in this way to explain a reduction of about 45 per cent.

(3) The freight concessions to the export coal and part of the bunker coal are integral parts of a policy which aims at the development of a large export trade, and were granted not merely in order to increase the railway traffic but also in the interests of the Coal industry. Special assistance of this kind is equivalent to a bounty on export and must be regarded as unfair competition.

(4) The exact amount of the bounty cannot be determined but it is not more than 5*s*. 7½*d*. nor less than 2*s*. 3*d*. a ton.

(5) An additional duty of Re. 1-8 a ton on South African coal would suffice to give the Indian Coal industry all the benefit it could derive from a duty of this kind.

(6) It is doubtful whether the price of Indian coal in Bombay and Karachi would rise at all as a result of the duty, but the increase (if any) would not be more than 12 annas a ton. There would be no increase elsewhere.

(7) A duty on South African coal would not add appreciably to the costs of any Indian industry.

(8) The invasion of the Indian markets by South African coal is not due to the bounty alone but also to the unsatisfactory quality and condition of the Indian coal sent to Bombay and Sind in recent years. Part of the responsibility for the latter factor rests on the shoulders of the Coal industry in Bengal and Bihar.

(9) The increase in the sales of Indian coal in Bombay and Sind resulting from the duty would not exceed 100,000 tons a year when allowance is made for the coal re-exported, the probable increased imports from other countries, and the increase which is probable even without protection.

(10) A duty on South African coal would do little to diminish employment or to prevent the shutting down of mines.

(11) The competition of South African coal has been felt not only in Bombay and Sind, but also in Ceylon and the Far East, and the loss of the latter markets is a much more serious matter than any injury suffered in the former. The imposition of a countervailing duty on South African coal will do nothing to help the Coal industry where help is most needed.

(12) A duty on South African coal might provoke retaliatory measures, and the possibility of effective retaliation by the South African Government cannot be excluded.

(13) In all the circumstances of the case it is inadvisable to impose a countervailing duty on South African coal.

The Report not signed by Mr. Ginwala.

73. Our colleague, Mr. Ginwala, concurs substantially in the findings numbered 1, 3, 4, 5, 6, and 7 in paragraph 72, but he considers that while there is no justification for imposing a protective duty on imported coal generally, it is desirable that a countervailing duty of Rs. 1-8-0 a ton should be imposed on South African coal. His reasons for rejecting the proposal for a protective duty on all imported coal are not identical with ours, and for this reason he has preferred to record his views in a Minority Report rather than in a Minute of Dissent. For this reason he does not sign this Report.

G. RAINY—*President.*

J. MATTHAI—*Member.*

C. B. B. CLEE—*Secretary,*

14th April 1926.

MINORITY REPORT.

CHAPTER I.

Reasons for dissenting from the Majority Report.

Agreement with Majority on essential facts; difference of opinion as regards recommendations.

I regret the circumstances which have made it necessary for me to write a dissenting report, for on many essential points my colleagues and I are in substantial agreement. All of us agree that the Indian Coal industry has failed to establish any case for protection on general grounds although my reasons for rejecting the proposal for a protective duty on all imported coal are not those urged in the Majority Report.

Exclusion of competition from other countries

2. In my opinion, the competition with Indian coal of the coal imported from countries other than South Africa calls for little consideration. The three other countries from which coal is imported are Great Britain, Australia and Japan. The imports from the two latter are negligible and, while those from Great Britain reached a high figure in 1921 and 1922, owing to the abnormal conditions then obtaining, they fell to the pre-war figure immediately these conditions disappeared. Even if these imports had been much heavier, I should still have excluded them from my proposals for the simple reason that the bulk of the coal imported from the United Kingdom is of a kind and quality different and superior, against which the best Indian coal cannot reasonably expect to compete. The exclusion is on the analogy of the Steel industry in which, for instance, we confined our recommendations to those classes of steel which could be manufactured in India out of Indian ore. In substance, the exclusion is based upon the argument that no competition does, in fact, exist between the coal from the United Kingdom and Indian coal, each being in a separate category, and that there is room in the country for this kind of coal which it needs but cannot produce.

Competition with South African coal.

3. In connection with the competition of South African coal we have reached by somewhat different roads, the same or similar conclusions on the most important of the relevant facts. My colleagues have come to the following findings* which, as far as they go and except as to the amount of the bounty, I accept as substantially representing my own views:—

(1) On the South African railways coal for bunkering and export is carried at a rate which is lower by 5*s.* 7½*d.*† a ton than the domestic rate for the same distance.

(2) * * * * *

* Paragraph 72 of the Majority Report.

† My estimate of the rate is 7*s.* 6*d.* per ton.

(3) The freight concessions to the export coal and part of the bunker coal are integral parts of a policy which aims at the development of a large export trade, and were granted not merely in order to increase the railway traffic but also in the interests of the Coal industry. Special assistance of this kind is equivalent to a bounty on export and must be regarded as unfair competition.

(4) The exact amount of the bounty cannot be determined but it is not more than 5*s.* 7½*d.** nor less than 2*s.* 3*d.* a ton.

(5) An additional duty of Rs. 1-8-0 a ton on South African coal would suffice to give the Indian coal industry all the benefit it could derive from a duty of this kind.

(6) It is doubtful whether the price of Indian coal in Bombay and Karachi would rise at all as a result of the duty but the increase (if any) would not be more than 12 annas a ton. There would be no increase elsewhere.

(7) A duty on South African coal would not add appreciably to the costs of any Indian industry.

My colleagues say "In India .. . . . where the law" (that is to say, section 8A of the Indian Tariff Act, 1894) "lays down no special conditions other than the payment of bounties, direct or indirect, it seems to us that it ought to be exercised in general accordance with the policy of discriminating protection approved by Government and by the Legislature."† This, in substance, is the principle which I also think ought to govern our deliberations. The application of this principle to the above findings has led me to the conclusion that I must advise the Government of India that a case has been made out for the exercise of its powers under section 8A of the Indian Tariff Act in the national interest, and for the imposition thereunder of a countervailing duty of Rs. 1-8-0 per ton on all South African coal entering India. My colleagues, however, have come to the opposite conclusion.

Difference in methods of approach—main cause of disagreement.

4. The main cause of this difference of opinion is, I think, to be found in the difference in our methods of approaching the subject. My colleagues say‡

"Since the war action has several times been taken in the United Kingdom to safeguard industries, which suffer from unfair competition, and it may be worth while to explain what the points are which are investigated before a decision is reached, for they offer valuable guidance as to the circumstances relevant in an enquiry into unfair competition".

* 7*s.* 6*d.* according to my view.

† Paragraph 64 of the Majority Report

‡ Paragraph 65 of the Majority Report.

After laying down the principle that the Governor General in Council should exercise the power conferred upon him "in accordance with the policy of discriminating protection approved by the Government and the Legislature", they proceed to discuss the circumstances under which the Board of Trade in the United Kingdom would order an enquiry* and the conditions laid down for the guidance of a special committee if appointed. They then test the claim of the Indian Coal industry by reference to these conditions† and come to the conclusion that they must reject the claim of the applicants for a countervailing duty. I must wholly dissent from this method of approach‡. It is likely to lead, in my opinion, to wrong conclusions for it seems to me to recognize no real distinction between the fiscal system of India, which embodies the policy of discriminating protection, and that of Great Britain, which is avowedly based on Free Trade. Holding this view I had no other alternative than to attempt, in the following pages, an investigation of the question referred to us and to arrive at a decision upon it in accordance with the principles by which, having regard to our fiscal system, this Board, in my opinion, ought to be guided in its deliberations.

Explanation.

5. I would like to explain that for the sake of simplicity I have taken first class Jharia coal as typical of Indian coal, and Natal as typical of South African coal. Unless the context otherwise suggests, the arguments based on facts relating to these two competing species of coals are intended, *mutatis mutandis*, to be applicable to all first class Indian coal and South African coal.

Further, the use of the term 'export' has presented some difficulty. Its use with reference to the despatch by sea of coal from one Indian port to another is inaccurate, strictly speaking, but it is convenient, and has the authority of the Coal Committee and the Coal Grading Act. As regards South Africa, the term is used mainly with reference to the markets of the East and the Far East.

Acknowledgments.

6. I am very much indebted to our Secretary, Mr. Clee, for the very great care and attention with which he has checked all the figures and for many suggestions from which, I am sure, I have derived benefit.

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* Paragraph 65 of the Majority Report.
† Paragraphs 66, 67, 68 of the Majority Report.
‡ For a further discussion of this aspect of the case see paragraphs 19, 20 and 22 of this Report.

CHAPTER II.

Success of South African coal mainly a result of bounties.

Summary of the conclusions arrived at in the separate note.

7. In a separate note I have estimated the extent of the injury inflicted on the Indian Coal industry by the competition of South African coal and have discussed the causes of the rapid growth of South Africa's export trade. It is sufficient here briefly to summarise the conclusions arrived at therein.

(1) Indian coal has lost to South African coal, markets aggregating 850,000 tons a year of which 300,000 tons is in Bombay and Sind, 250,000 tons in Ceylon and 300,000 tons in the Far East. In the Far East and in Aden and the Red Sea, South Africa has captured markets which India never held amounting in the aggregate to 550,000 tons. If the export of South African coal had not been stimulated by Government action, India might possibly have captured a half share in these markets. The total loss to the Indian Coal industry, owing to the competition of South African coal, is 1,125,000 tons a year.

(2) The success of South African coal cannot be explained by causes which usually operate in such cases, *e.g.*, a shorter distance from the collieries to the ports, or from the ports to the overseas markets, lower raising costs, or the intrinsic superiority of the coal produced.

(3) The capture and retention of the overseas markets by South African coal has been facilitated by the unsatisfactory quality of much of the Indian coal shipped to these markets, by the embargo on the export of Indian coal during 1921 and 1922, by the rise of the rupee sterling exchange from 1*s*. 4*d*. to 1*s*. 6*d*. in 1924, and by a lower pithead price from the middle of 1922 to the middle of 1925. All these factors, however, are subsidiary and by themselves could not have brought about the growth in the exports of South African coal which has actually occurred.

(4) The principal cause of the success of South African coal is to be found in the rebates of railway freight granted by the South African railways. The rebate of freight on coal exported is equivalent to a bounty of 6*s*. 3½*d*. a ton and the rebate of freight on the coal bunkered by ships carrying export coal is equivalent to an additional bounty of 1*s*. 3*d*. a ton, which may be regarded as a subsidy on sea freights. The total amount of the bounty is 7*s*. 6½*d*. a ton, *i.e.*, Rs. 5 a ton.

(5) The bounty is a part of a policy deliberately adopted by the South African Government to promote the development of an export trade in coal, and the success of South African coal has been gained at the expense of India which is its chief rival in most of its export markets.

Bounty.

8. My colleagues do not, I think, dissent in substance from any of these conclusions as to the amount of the bounty. They have expressed no opinion, however, as to the extent of the injury inflicted on the Coal industry by the loss of the export markets, and do not consider that it should affect the decision as to the imposition of a countervailing duty. On this point I shall have something to say later. It will be desirable, however, that at this stage I should explain my reasons for putting the amount of the bounty at a higher figure than my colleagues do, and refer briefly to certain points on which I go somewhat further than they are prepared to go.

The amount of the bounty.

9. The assistance given by the South African railways to the export of coal is 7*s*. 6*d*. a ton. My colleagues accept this figure, but in order to arrive at the bounty, they deduct the gain to the railway revenues arising from the fact that, for every ton of coal exported, four-fifths of a ton of bunker coal is carried at a rate higher by 2*s*. 5*d*. a ton than the domestic rate. On this ground they consider that the bounty should be taken at 5*s*. 7½*d*. a ton. I am unable to assent to their conclusion. In my view the correct measure of the bounty is not the revenue sacrificed by the South African railways on the coal traffic as a whole, but the assistance which the coal exported actually received. In order to justify the reduction of the bounty by 1*s*. 11*d*. a ton it would have to be shown that there is a direct connection between the higher rate on bunker coal and the export rebate, and that the one is intended as a counterpoise to the other. It seems to me that the existence of this connection is a matter rather of inference and surmise than of definite proof, and for this reason my view is that the bounty must be taken as 7*s*. 6*d*. a ton.

Rebates are nothing but a direct bounty.

10. It has been questioned whether the rebates are in fact a bounty or whether they are merely reductions of railway freights, granted on ordinary business principles for attracting or creating export traffic in coal. Of many possible objections to the latter view, I shall mention the two most serious. The domestic coal freight is already lower than the specially low freights on certain commodities the export of which is intended to be stimulated, except the rates on iron ore and maize for certain distances.* This shows that the domestic coal freight is fixed as low as the Railway Administration can reasonably afford, and that there can be no further room for its reduction on business principles. Secondly, the sacrifice of 7*s*. 6½*d*. out of a total freight of 12*s*. 7*d*. on every

* See paragraph 25 of my note.

ton of export coal carried, is far too great to be justified on any business principles. I have no hesitation in coming to the conclusion that the whole of the difference between the domestic and the export freight charges is a direct bounty on export, which is being paid through the Railway Administration by the South African Government for stimulating the export of coal. The Report of the South African Coal Commission leaves very little room for doubt that this payment is part of a deliberate policy adopted by a national Government to promote the interests of the Coal industry as a national asset, and that it has little or nothing to do with the encouragement or creation of additional railway traffic as a business proposition. On the total exports, in round figures, of $1\frac{1}{2}$ million tons the State sacrifices something over a half million pounds sterling per annum in the furtherance of this policy.

South African freights deliberately approximated to Indian freights.

11. The comparison between the South African and Indian nett export freights at various periods, which I have made in my note, gives ground for thinking that the South African freights have been so fixed as to enable the South African coal to compete against Indian coal in the export markets. The reasons for this action are fairly obvious. South Africa regards India and the Far East as its 'natural oversea markets'. In these markets the Indian coal is its principal rival. The cost of transport is an essential and perhaps the most important factor in the export price of coal. This cost must ordinarily depend upon the distance of the collieries to the ports and from the ports to the markets. In this respect, South African coal suffers from a natural disadvantage in its competition against Indian coal*. If South African coal is to compete successfully against Indian coal, the first step to take is to remove this disadvantage and bridge the difference in the cost of railway transport between colliery and port of South African and of Indian coal. The natural way of accomplishing this object was to reduce the nett railway export freights by means of rebates and keep the amount in the neighbourhood of nett Indian export freights. Whilst this was the position as regards the nett export freights, the ton mile rate between 1921 and 1925 was, in fact, lower than the Indian rate. Since the Coal Committee's Report, the ton mile rates have been equalized (see Chapter III of my note). The disadvantage under which South African coal laboured, owing to its greater distances from its export markets, however, called for a further remedy, and in consequence sea freights have been subsidized to the extent of 1*s*. 3*d*. per ton and the hardship partly removed.

South African coal cannot compete against Indian coal without bounty.

12. One fact of outstanding importance has now been established beyond any reasonable doubt, and that is that South African coal, unaided by a bounty on export and left to its own economic resources, can never compete against Indian coal in any Indian or Eastern market

*See paragraph 9 of my note.

except at a loss which would reduce the export pithead price almost to vanishing point This will be evident if the charges which South African coal has to meet before it reaches the Bombay market are considered. They are as follows:—

	s.	d
Domestic railway freight	12	7
Sea freight	11	3
South African port charges		$2\frac{1}{2}$
Agents' commission, etc.	1	0
	26	$0\frac{1}{2}$

In the above table the rail freight has been taken as equal to the domestic freight, and the shipping subsidy (1*s*. 3*d*. a ton) has been added to the sea freight actually payable. It will be seen that if the export trade in coal receives no assistance from the South African Government, the transport charges would amount to 26 shillings a ton The price of Natal coal, c i.f. Bombay, in October or November, 1925, was in the neighbourhood of Rs. 18 a ton. This is the equivalent of 27 shillings with the exchange at 1*s*. 6*d*. and will leave the exporter at the pithead $11\frac{1}{2}$*d*. per ton. It is needless to add that this is an impossible economic price, however low the South African raising cost may be. If, however, the factor of exchange is taken into account, the position of the South African exporter is still worse. In that case, for Rs. 18 he will get at 1*s*. 4*d*. only 24 shillings, and if his transport and incidental charges are 26*s* $0\frac{1}{2}$*d*. he must make a gift to the Bombay consumer not only of the whole of his pithead price, but of an additional sum of 2*s* $0\frac{1}{2}$*d* with every ton of coal that he sells to him.

Success of South African coal due to bounty and not to deterioration of quality of Indian coal or embargo on export.

13 In Chapter I of my note, I have explained the extensive injury done to the Indian coal industry both in the Indian and the external markets by the competition of South African coal. It remains to consider whether this result was brought about solely by the bounty on export, or whether it was the effect of the combination of this bounty with the deterioration of the quality of Indian coal and the embargo on the export of coal. The latter view is clearly erroneous in so far as it attributes equal importance to factors of widely different magnitude. Had there been no bounty, South African coal could not have competed successfully in any of the overseas markets. The embargo made it possible for South African coal to capture temporarily the markets of Ceylon and the Far East, but in the absence of a bounty they must have been recaptured by Indian coal as soon as the embargo was removed. The dissatisfaction with Indian coal facilitated the acquisition of the markets in Bombay and Sind, and their retention in Ceylon and the Far East, but could do no more. In order that South

African coal might compete at all, a very heavy reduction in the transport charges was necessary. It is for this reason I have laid emphasis on the fact that, if the bounty were abolished, the price for which Natal coal is sold in Bombay would leave the colliery owner less than a shilling a ton at the pithead, and if the exchange went back to 1*s.* 4*d.*, would not even cover the transport charges. The facts, in my view, justify the statement that the bounty was the indispensable condition of success, and that all the other factors were purely subsidiary.

CHAPTER III.

Measures against unfair competition in other countries.

How unfair competition is dealt with in other countries.

14. It is now necessary to consider whether any, and if so, what steps ought to be taken to protect the Indian Coal industry against the competition of South African coal. This is the first case in which the Board has been called upon to deal with the protection of an industry injured by unfair competition from a rival subsidised by means of a bounty. Other countries have dealt frequently with this kind of competition. In these circumstances, an examination of the course, which other countries similarly situated have adopted or might adopt, is of some assistance in arriving at a conclusion on this point, and I propose to undertake it as briefly as the circumstances of the case permit. I will then consider how far the recommendation by the Board of a similar course is expedient.

Pre-war legislation against unfair competition.

15. Unfair competition began to engage the attention of many countries more than fifty years ago, in connection with the export of bounty fed sugar. Attempts were at first made by individual States to meet what was regarded as a serious economic evil by agreements among themselves, but such arrangements met with little success, and some countries took measures to prevent the entry of bounty fed sugar by the imposition of what have since been described as countervailing duties. The United States took the initiative in 1890 in this direction, was followed by India in 1899, when section 8A of the Indian Tariff Act was enacted, and by other countries during the next three or four years. By the signing of the Brussels convention in 1902, practically all the important countries agreed to abolish the system of bounties within their own territories and, including Great Britain, definitely recognised the principle of the entire prohibition or penalization of the importation of bounty fed sugar. The convention remained in force until the termination of the war.

Post-war legislation against unfair competition.

16. During what may be called the early post-war years, there was a widespread economic nervousness which resulted in many countries in the passing of legislative measures for the protection of their home industries against unfair competition. The following may be mentioned among the principal countries which took such action:—

(1) United Kingdom (The Safeguarding of Industries Act, 1921).

(2) United States of America (Tariff Act, 1922).

(3) Australia (Customs Tariff Industries Preservation Act, Anti-dumping, 1921).

(4) New Zealand (Tariff Law, 1921).

(5) South Africa (Act XXXV of 1922, Customs and Excise Amendment Act XXIII of 1923).

(6) Canada (Customs Tariff Act of 1907, as amended by Act of 1922).

(7) Newfoundland (Tariff Amendment Act, 1921).

(8) Japan (Customs Tariff Law).

An examination of these various measures shows that—

Firstly, their principal object is the prevention of unfair competition and the injury thereby of a domestic industry. The competition is presumed to be unfair if it arises, *inter alia*, from any one or from all of the following causes, *viz.*—

(*a*) Depreciated exchanges;

(*b*) The selling of a commodity to the foreign consumer at a lower price than to the home consumer ordinarily called 'dumping.'

(*c*) Direct bounties;

(*d*) Indirect bounties in the form of subsidies or preferential railway or ocean freights. In the latter are also included freights at ballast rates.

Secondly, in almost every case, the unfair competition arising from any of the causes mentioned above is intended to be met by the imposition of a duty or an additional duty approximately equivalent to the advantage derived by the foreign as against the domestic commodity. Thus, in the case of a bounty, the countervailing duty would ordinarily be equivalent to the amount of the bounty paid.

Thirdly, the imposition of the duty is generally preceded by an enquiry conducted by such a body as the United States of America Tariff Commission, the Australian Tariff Board, or by a committee such as those appointed in the United Kingdom since February, 1925.

Unfair competition—sole criterion in some countries.

17. In some countries mere proof of the existence of unfair competition is sufficient to justify action. The imposition of additional duties is made obligatory, almost automatic, for the law prescribes that these duties shall be imposed if unfair competition exists. No arguments are drawn in support of the proposed measure from any economic doctrine, the underlying idea being that injury is caused to a domestic industry by such unfair competition, and that in the national interest, such injury should be prevented. As examples of countries in which action under this single circumstance is taken I may mention Canada, and where the unfair competition arises from the payment of a bounty, the United States.

18. In other countries the imposition of additional duties is not automatic on mere proof of unfair competition. Considering the numerous occasions, however, on which the power has been exercised and the number of articles (a mere list of which would fill many pages of this Report) on which the duties have been levied, it is fairly clear that the power vested in the Governments of those countries had been exercised, as if it was obligatory to do so. Unfair competition must in any case be established and it must be shown that injury or 'detriment may result' to some domestic industry by reason of such unfair competition. The fact that "detriment may thereby result" to a domestic industry is easily established, judging by the number of successful applications to which I have referred. Of some importance is the fact that no actual injury is to be proved and the probable injury is not measured in terms of tons, percentages, or pounds, shillings and pence. If it was, we should not ordinarily find such articles as artificial eyes, dental cement, typewriter ribbons and numerous other articles of comparatively little value or importance among the list of articles protected against unfair competition. As examples of countries in which action is taken under the above conditions I would mention South Africa, Australia and Japan.

Unfair competition attended by actual or probable injury to domestic industry, criterion of other countries.

19. The case of the United Kingdom has been cited with two objects principally in view. First that the payment of direct or indirect bounties is regarded as constituting 'unfair competition' even in a country professing Free Trade. Secondly, to show that "unfair competition" has received such universal condemnation as an evil not to be tolerated, that the United Kingdom, in spite of its policy of Free Trade, has not only found it necessary to depart from it. professed fiscal principles, but has apparently succeeded in reconciling a substantial section of public opinion to the view that where "unfair competition" exists measures can be taken to protect or "safeguard" industries against it without detriment to those principles. The adoption by a Free Trade nation of the same defensive methods as are employed in Protectionist countries is a highly significant fact. But beyond this there is little to be learnt from the example of Great Britain by countries which have adopted the policy of protection. In that country a *primâ facie* case of unfair competition has to be established before an enquiry is ordered and a special committee appointed, and the recommendations made by such a committee are in addition subject to the fulfilment of other conditions by the industry concerned. These conditions were prescribed by a white paper, a copy of which is reproduced in Appendix IX.

United Kingdom requires fulfilment of other conditions.

20. I do not propose to discuss these conditions. Some practical purpose may be served by showing that a country professing Free Trade also adopts, under similar circumstances, measures appropriate under an opposite system, or

These conditions afford little assistance in the deliberations of this Board.

by showing that a protectionist country may adopt, under more or less similar circumstance, a course adopted by another protectionist country. But I do not think that any practical purpose would be served by an examination of the conditions on which a Free Trade country like the United Kingdom may insist before granting protection against unfair competition. It may be necessary to prescribe them and to require their fulfilment in the United Kingdom to conciliate political opinion, or to prevent greater departure than is necessary, from the principles of Free Trade, or for some other reason peculiar to its fiscal system. But it is unsafe to take them as a basis for the deliberations of a Board which has been specially charged with the duty of advising a Government, whose policy is that of discriminating protection and is for that reason different from the professed policy of the United Kingdom. A minute adherence to these conditions would render us liable to the risk of making a serious departure from the accepted policy of the country in fiscal matters In these circumstances, I refrain from entering upon a detailed examination of the conditions under which protection may or may not be granted in the United Kingdom.

Other countries: South Africa. Australia.

21. I would now give a few illustrations of the actual application of the law in some of the countries mentioned. As pointed out in Chapter II of my note, the South African Railways have special railway rates for certain kinds of export traffic. In 1922, the South African tariff was revised and the export freight rate on maize meal was reduced to 10 shillings for 200 miles and for any distance up to 1,000 miles. The result of the reduction in freight was that a large quantity of South African maize was exported to Australia. Australia found import under these conditions to be objectionable, and following a report by the Tariff Board, the Australian Government levied an anti-dumping duty upon the South African maize. Here was an article of food and its taxation would be regarded on theoretical grounds as objectionable, but the Australian Government took the view that the importation of South African maize under these conditions was unfair and prejudicial to the interests of the home growers and imposed the additional duty. About the same time the South African Government imposed an anti-dumping duty on Australian wheat, wheat meal and wheat flour imported into South Africa. Two somewhat peculiar instances of Australia's desire to protect its own industries may also be recalled. The theoretical ratio fixed by the Indian Legislature for the rupee is 2 shillings to the rupee. Not knowing that this ratio had not been realized, the Australian Government imposed an anti-dumping duty on Indian pig iron and cricket balls imported into Australia on the ground that the rupee had depreciated because its exchange value at that time was 1*s*. 4*d*. to 1*s*. 6*d*. When the attention of the Australian Government was drawn to this mistake the duties were repealed, but the point that Australia was not prepared to allow any interference by means of unfair competition remains. Again, both South Africa and Australia have a preferential tariff

D 2

for Great Britain but whenever their interests come into conflict with those of Great Britain, this preference goes by the board and if any domestic industry is, or rather likely to be injured by what these two Dominions regard as unfair competition, they show no hesitation in imposing anti-dumping duties on manufactures from the United Kingdom. Thus, in October, 1925, Australia imposed anti-dumping duties on Portland cement imported into Australia if the freight paid was less than four shillings and six pence per cask, the argument being apparently that cement was often exported from Great Britain at more or less ballast rates and dumped into Australia. South Africa also imposed in August, 1923, an anti-dumping duty on British cement. Again, in February 1924 Australia imposed anti-dumping duties on merchant steel bars, angles, beams, channels, and tees imported from the United Kingdom.

Action not confined to protectionist countries.

22. Action against "unfair competition" is not confined to what may be called protectionist countries. In the United Kingdom, since the beginning of 1925, the Government has appointed several committees to enquire into and to report on applications by various industries which were alleged to be suffering from "unfair competition." In the instructions issued to the committees it was stated that competition was not to be deemed unfair unless it arose, *inter alia*, from (*a*) depreciation of currency operating so as to cause an export bounty, (*b*) subsidies, bounties or other artificial advantages. During last December alone, about four industries were "safeguarded" against such competition by the imposition of *ad valorem* duties varying from $33\frac{1}{3}$ per cent. to about 17 per cent. Altogether, it appears, 34 applications were received between February, 1925 and December, 1925, of which 13 had been summarily rejected and 9 had been reported on. The remainder were still under consideration or in abeyance.

Reasons for action.

23. Sufficient instances have now been given to show that the imposition of countervailing duties is considered a legitimate means of protecting a home industry against unfair competition. The reasons why such action is taken are not difficult to understand. When competition does not arise from economic causes for which industries may be held responsible, but from the direct action of a foreign Government, in the shape of the payment, of a direct or indirect bounty on export, or through conditions in a foreign country such as the depreciation of currency "operating so as to create an export bounty," direct action on the part of the Government of the injured country is found to be the only practical and effective counter weapon. It is taken for granted that no industry, however well equipped or organised it may be, can hold out indefinitely against such unfair competition unless aided by the State. The temporary advantage that the domestic consumer may derive from obtaining a commodity cheaper than he otherwise would, is not regarded as compensation for the resultant injury to a domestic industry or

the feeling of insecurity which it produces. The greater the importance of the industry to the country, the greater is considered the need for direct Government action for its preservation and protection. The usual action—the imposition of a protective duty—is regarded as unsuitable for, however great the measure of protection, it may prove to be inadequate so long as the rival industry has at its back the resources of a powerful Government or derives some temporary advantage from a depreciated currency. Except in the rare instance in which the bounty fed article is not produced in the country to which it is exported and therefore the consumer benefits whilst no domestic industry thereby suffers any injury, practically every country in the world has at some time or other expressed its disapproval, by the imposition of countervailing duties, of the stimulation of exports by means of a bounty paid by the State.

CHAPTER IV.

Countervailing duties on South African Coal.

Practice of other countries

24. As explained in Chapter III, the payment by the South African Government of a bounty on the export of coal would in many other countries be regarded as constituting unfair competition and be met by the imposition of a countervailing duty.

Practical considerations justify imposition of countervailing duties.

25. The question that now arises is: Is the Board, in the absence of an Indian precedent, to be guided by the practice and example of so many countries or is the matter to be decided mainly on considerations of economic theory? The latter is a necessary and often the only reliable guide in the absence of actual practice and experience, but when the experience of several other countries is available, it would be a mistake to ignore it.

Limitations imposed by fiscal law and system cannot be ignored.

26. It is true of course that no country can wisely follow the practice and example of other countries, without considering the limitations necessarily imposed by—

(*a*) its own legislation, and

(*b*) its fiscal system,

to the extent to which both are definitely ascertainable. I now proceed to investigate this aspect of the question.

Fiscal law.

27. So far as the Indian fiscal law which is directly relevant to this point is concerned, the only enactment we have is section 8A of the Indian Tariff Act (1894). This section was added to the Act in 1899 in connection with bounty fed sugar. It provides—"Where any country, dependency or colony pays or bestows, directly or indirectly, any bounty or grant upon . . . . . the exportation therefrom of any article . . . . . the Governor General in Council may, by notification in the Gazette of India, impose an additional duty equal to the nett amount of such bounty or grant, however the same be paid or bestowed." The words used are, no doubt, not mandatory. Where bounty-fed sugar was concerned, however, according to the policy of the day the imposition of countervailing duties involved no further proof than the existence of the bounty and in that sense there is no other limitation on the exercise of this power by the Governor General in Council. In the absence of any prohibition in the enactment itself there is nothing to prevent its exercise in other cases, where the payment of a direct bounty is proved, and injury may thereby result to an Indian industry. The Fiscal Commission took this view with one modification, and in any consideration involving the application of the principle of protection on the lines enunciated by them, that view, if not decisive, must necessarily

carry much weight. For that reason I quote pargaraph 141 of their Report in which their view is stated—

> "If action is to be taken to protect Indian industries against the action of individuals in foreign countries resulting in dumping, or against such general conditions as arise inevitably from a temporarily depreciated exchange, it is clear that protection should equally be afforded against any deliberate action of a foreign State tending to stimulate its exports at the expense of any Indian industry. But this branch of the subject is already covered by Act XIV of 1899 which was passed in order to deal with the export bounties on sugar. The Act is worded generally and provides that where any country pays directly or indirectly any bounty upon export, the Governor General in Council may by notification in the Gazette of India impose an additional duty on importation into India equal to the nett amount of such bounty. This provision appears to give all the security that is required to counteract any system of export bounties and provides an opportunity for any industry which feels that it is being handicapped by such export bounties to approach the Government of India with a view to the imposition of countervailing duties."

It will be observed that the Fiscal Commission considered in substance that the powers were adequate and that by their exercise protection should be afforded against the action of a foreign Government "tending to stimulate its exports at the expense of an Indian industry." They did not insist that actual, much less serious, injury was to be established, before relief could be granted. This is in accordance with the practice of some of the other countries.

The modification to which I have referred is that the action of the foreign State tending to stimulate its exports in case of a bounty should be "deliberate." This can be but rarely established, but when it is, the need for the exercise of the powers is all the greater. If actual injury is established, the necessity for its exercise can seldom be resisted.

Indian fiscal system.

28. I may now consider whether any limitations are imposed by our fiscal system. This system has generally been described as one of "discriminating" protection. In the nature of the case, the phrase cannot be defined with such precision as to embrace all the circumstances justifying such protection. The phrase must be interpreted with reference to the peculiar conditions of each industry and no hard and fast rule can be laid down. In ordinary applications for protection our deliberations would be guided by the declared policy of the Government of India, which is to be gathered from the Resolution of the Assembly dated the 16th February, 1923, when the policy of protection was initiated. All the conditions laid down by the Resolution, however, are not applicable to this case. It is therefore necessary to fall back on general considerations, of which the most

important is "due regard for the well-being of the community." This, in its turn, cannot be defined, but I think the condition will be satisfied if it can be shown—

(1) That actual injury has resulted to the Indian Coal industry.

(2) That the duty recommended is no higher than would suffice for the purpose of enabling Indian coal to compete successfully against South African coal.

(3) That the burden of the duty is not unreasonable.

(4) That on a balance of advantages and disadvantages the imposition of the duty is in the national interest.

Injury to the Indian Coal industry extensive.

29. In my note I have explained that the competition of South African coal in the Indian and Eastern markets has resulted in a reduction of the sales of Indian coal by 1,125,000 tons. Translated into money this means, even at the present low prices, a reduction of Indian exports of about $1\frac{1}{2}$ crores,* and to the Coal industry a loss of business of which the total pithead value is in the neighbourhood of 60 to 70 lakhs†. If it is borne in mind that it is only first class Bengal and Bihar coal which is exportable, the quantity lost to the Indian industry is nearly 14 per cent.‡ of such coal available for sale.

Loss of external market must be taken into account in determining the extent of injury.

30. Objection may be made that the loss of external markets cannot rightly be taken into account in estimating the injury done to the Indian Coal industry by the competition of South African coal. The argument is that this enquiry is not concerned with external markets, and that in any case the Board's recommendations, confined as they must be to the Indian markets, will not help the industry in the former markets. If this is so, it may be a ground for examining the question of exports, and devising means for capturing or recapturing those markets but scarcely for ignoring the injury thus inflicted. The *quantum* of the injury is a factor which must be considered in the application of a remedy. Moreover, where an

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* Taken at an average f.o.b. price of Rs. 12 per ton.

† Taken at an average pithead price of Rs. 6 per ton.

‡ The result is thus arrived at. The total production of coal is taken at 20 million tons. From this is deducted coal—

(a) consumed at the pithead $12\frac{1}{2}$ per cent. . .	$2\frac{1}{2}$ million tons
(b) produced in Indian States	1 million tons.
(c) produced in Central Provinces	1 million tons.
(d) raised by railways which never comes into the market	2 million tons.
	$6\frac{1}{2}$ million tons.

This leaves $13\frac{1}{2}$ million tons of all coal. According to the Chief Mining Inspector's opinion 64·3 per cent. of Jharia and 54 of Raneegunge coal, or an average of 60 per cent. is first class coal. This is equal to 8·1 million tons, of which 1·17 millions is 14 per cent.

industry has suffered damage by losing a substantial export market it may be an additional reason for giving such help as is possible within the country.

Amount of countervailing duty recommended—Re. 1-8-0 per ton on South African coal.

31. As to the question of the amount of the countervailing duty to be imposed, the maximum amount which is justifiable is the amount of the bounty, *viz.*, 7*s.* 6½*d.*=Rs. 5 per ton. All the evidence recorded in this enquiry, however, is to the effect that a duty of Re. 1-8-0 per ton, added to the existing duty of annas 8, will be sufficient to enable Indian coal to compete successfully with South African. My colleagues and I are in complete agreement on that point, and I would therefore recommend the imposition of a countervailing duty of that amount on all South African coal imported into India. If the South African Government adopts any counter measure or if South African coal still finds its way into the Indian markets, the duty may be increased by executive action to an effective amount.

Burden of the countervailing duty on the consumer.

32. I must now consider whether the imposition of a countervailing duty will throw on the consumer an unreasonable burden. It is possible that the price of South African coal may rise by the full amount of the duty, but this, as I shall presently try to show, will not necessarily be equivalent to an increase of the consumer's burden.* So far as Indian coal is concerned, my colleagues are of the opinion, and I agree with them, that "it is doubtful whether the price of Indian coal in Bombay or Karachi would rise at all as a result of the duty, but the increase (if any) would not be more than 12 annas per ton. There would be no increase elsewhere."† In the immediate future the chances of a rise even of 12 annas per ton do not appear to be great. In Bombay where business is very largely done through middlemen, the prices will not be allowed to rise if they can help it. Their interests lie to some extent in exploiting the "prejudice" against Indian coal, and in compelling the collieries on that ground to sell their coal as long as possible at the present level of prices. Further, there is at present keen internal competition between rival producers which keeps prices down. The industry is at present in a state of depression and there is a certain amount of over-production so that competition for that reason, to get rid of the output, is all the more severe, and prices at the pithead already appear to have fallen by about annas 8 to annas 12 per ton since the Board's enquiry commenced A further safeguard against such a rise is to be found ~~in the fact~~ that there is some risk involved in this to the bunker trade in these two ports. The shipping trade is none too prosperous at the present moment, and an additional shilling in the cost of fuel may make all the difference as to where a ship might bunker, and trade in bunker coal may be driven to other ports. One rate for bunker and another for domestic coal is hardly a practical proposition. All these reasons are sufficiently strong to prevent a possible rise.

* See paragraph 34.

† See paragraph 72, finding (6) of the Majority Report.

Principal Bombay consumers in favour of countervailing duty.

33. I may perhaps add in this connection that the Bombay Chamber of Commerce stated that apart from the mill industry they were not aware of any important industrial concerns in Bombay that were consumers of coal. The textile mills of Bombay may, therefore, reasonably be regarded as the principal consumers of coal in Bombay. So far as they are concerned, they are willing to acquiesce in a rise of price, should it take place in consequence of the imposition of countervailing duties. They, in fact, recommend their imposition, if it is established that the competition from South Africa is unfair by reason of South African coal receiving direct or indirect bounties.

Rise in the price of South African coal will throw no burden on the consumer, it may reduce it.

34. In paragraph 32, it has been shown that there will be no rise in the price of Indian coal to the consumer in any of the principal Indian ports. There will be a rise, however, in the price of South African coal in Bombay and Karachi. Will the consumer have any real additional burden imposed upon him by this fact? It must be recollected that at present the consumer pays for South African coal Rs. 2 per ton more than it is entitled to on its merits. He will save this amount on every ton of Indian coal which he substitutes for South African coal, provided of course that he takes the ordinary precaution of making his purchases in such a way that he gets the Indian coal which is claimed to be as good as the South African coal. If the quality of the coal is assumed to be the same, he will, far from incurring an additional burden, effect a saving in his total coal bill

Quantity of South African coal which may be displaced.

35. If South African coal is, as a result of the duty, eliminated from the Indian market, Indian coal may naturally be expected to take its place. The following table gives the quantities and value of South African coal imported into India during the last five years:—

	Quantity. Millions of tons Excluding Government Stores.
1921	0·464
1922	0·393
1923	0·398
1924	0·327
1925	0·335
Average	0·383

	Value. Lakhs of rupees.
1921	172·52
1922	131·78
1923	105·59
1924	82·33
1925	77·71
Average	113·98

The average quantity per annum imported during the last five years is 383,000 tons.* Out of this some deduction should be made for re-exports of South African coal. No figures are available but an allowance of 43,000 tons may perhaps be sufficient, leaving 340,000 tons for Indian coal to displace.

The total value of the trade was on the average of the last five years Rs. 113·98 lakhs per annum. A deduction of about 10 per cent. for re-exports will reduce the total to about 103 lakhs. It is true, that owing to a decline in prices, the average total value of trade thus acquired will be smaller now, but even if the figures of last year are taken, there is little doubt that the trade of the country as a whole will benefit by the displacement of South African by Indian coal.

Gain to the country as a whole by the imposition of countervailing duty.

36. I have made an attempt to show that the burden on the consumer will not be increased by the imposition of a countervailing duty, and that in fact it may result in reducing his total coal bill. Whatever benefit the industry may derive is, therefore, in a sense a nett gain to the country. If the benefit is small there is no reason to despise it for it costs the country nothing, while whether it is small or otherwise must be largely a matter of opinion.

Precautions by consumer to secure good quality of Indian coal.

Purchasing direct from collieries.

37. In paragraph 34, I have stated that by the substitution of Indian for South African coal, the consumer will, far from carrying any additional burden, reduce his total coal bill by saving about Rs. 2 per ton, provided that he takes the ordinary precaution of making his purchases in such a way that he obtains the Indian coal which is claimed to be as good as South African coal. There are two ways in which he can safeguard himself. First, he can take advantage of the grading and certification system now being introduced, and purchase his coal, without the employment of middlemen at either end, direct from reputable collieries. Even when there was the bitterest complaint against the quality of Indian coal, purchases so effected were found to be satisfactory. This is clear from the fact that the Coal Committee gave it as their opinion† that in Rangoon and Madras exporters of Indian coal had not fallen under the condemnation which they had found in the other ports. An examination of the evidence taken by the Coal Committee leaves little doubt in my mind that this was largely due to direct purchases. Mr. Sinclair, for instance, giving evidence on behalf of the Irrawaddy Flotilla Company, Limited, Rangoon, stated‡—

> "When we go to a good firm in Calcutta we consider that we shall get good coal. We have never been let down."

* I prefer to take the average of five years for reasons similar to those given in paragraph 42 in connection with the partial recovery of the market by Indian coal.

† See page 105 of the Indian Coal Committee's Report.

‡ Page 340, Vol. II of the Indian Coal Committee's Evidence.

As regards Bombay, the evidence points to the same opinion. For instance, Major Duncan Wilson of Messrs. Killick Nixon and Company, Bombay, states*—

> "We ourselves dealing with a reputable firm in Calcutta were well satisfied enough."

Securing guarantee as to the quality if middlemen employed.

38. Secondly, where it is necessary, or, as is the case in Bombay, it is customary to effect purchases through a middleman, the consumer can protect himself by taking from him guarantees as to quality, and enforcing them by penalties or otherwise. One of the ways in which this can be accomplished is the system followed, among others, by important purchasers such as the Municipal Corporation, the Port Trust and the Improvement Trust, Bombay. The system, which was commented on with some approval by the Indian Coal Committee,† was fully explained in the evidence recorded in their enquiry.‡ After describing the system the Committee observe:—

> "There are two points of interest in the system; the first is that it has resulted in Indian coals being accepted after open competition in preference to Natal coals, and the second that it has been applied to the coal supplied by Calcutta firms whose representatives had explained to the Committee the impossibility of any such system."

The fact brought out in this quotation is that the system is both workable and effective.

Reason for such guarantees.

39. The main reason why the consumer should safeguard himself in one of the two ways already mentioned, is the fact that there is a considerable body of evidence on record which points to the conclusion that he has not always been fairly served by the middleman. Where no middleman was employed, or where guarantees were taken from him when he was employed, there was little or no complaint against the quality of Indian coal, but where he was ordinarily employed without giving guarantees as to quality, the complaints were generally bitter. There can be, therefore, very little doubt that there is some connection between the middleman and the very inferior quality of Indian coal supplied to his employer in Bombay. Some light is thrown on this subject by the evidence (from which a few extracts are printed in Appendix X) of reputable witnesses. Some of them have expressed the opinion that the middleman is to a large extent responsible for the iniquities imputed to the Bengal coal trade. In the opinion of others, the grading and certification of coal will not avail against the evil of mixing inferior with superior coal, a circumstance for which, it has been

* Page 287, Vol. II of the Indian Coal Committee's Evidence.

† Paragraph 113 of the Indian Coal Committee's Report.

‡ *e.g.*, the evidence of Mr. E. Gordon Cameron, Mechanical Engineer, Bombay Corporation, page 245 *et seq.*, Vol. II of the Indian Coal Committee's Evidence.

alleged, the dealer or the middleman is sometimes responsible. It appears also that some middlemen speculate in coal. This may give them an interest in decrying the quality of Indian coal, and thereby compelling the trade to reduce prices, especially when the coal is already in Bombay and requires quick disposal. The rules of ordinary prudence impose upon the purchaser of any commodity the duty of exercising a reasonable amount of vigilance; the duty is still heavier when he employs agents against some of whom allegations, such as those to which I have referred, have been publicly made by respectable witnesses.

Consumer will not adopt any precautions unless South African coal becomes dearer.

40. The consumer has at present little or no inducement to adopt either of the precautions suggested in paragraphs 37 and 38. Usage has proved strong enough to make him think less of the extra rupee or two he pays for South African coal than the trouble involved in a change of system. He will change his method of purchase when he finds South African coal dearer and discovers, that by taking reasonable precautions, Indian coal of like quality can be substituted for it at a smaller cost.

CHAPTER V.

Objections to the imposition of a countervailing duty on South African coal.

Resultant gain to Indian Coal industry small.

41. Some of the more important objections to the imposition of a countervailing duty may now be considered. The first of them is that a countervailing duty will result in very little good to the Indian Coal industry. It will effect only a small increase in the sale of Indian coal and will be of no assistance in the foreign markets though the damage suffered there by the Indian Coal industry is three times as great as in the internal markets. It is hard to understand the force of an argument which would reject a gain, not counterbalanced by some real disadvantage simply because it is small. Moreover, an argument of this kind involves, in my opinion, a misconception as to the respective functions of countervailing and protective duties. The latter have for their primary object the establishment, the development or the acceleration of the progress of an industry. It is for this reason that the resultant gain should be substantial and is regarded as an essential factor in arriving at a decision to impose them. The primary object of countervailing duties, on the other hand, is the prevention of probable or actual injury to an industry arising from what is known as unfair competition. The resultant gain is necessarily smaller if the duties are, as they ought to be, imposed at an early stage in self defence and the evil attacked as soon as it has become visible, or at any rate before it has spread to any appreciable extent. All the countries, which I have mentioned, with the possible exception of Great Britain (whose example, as I have tried to point out, is not, applicable), have acted on this principle. There is nothing in India's fiscal law or system which prevents us from adopting it, and much is to be said in its favour as the justification of a precautionary measure founded on the rules of prudence.

Some recovery already visible without protection.

42. A further objection is that, so far as Bombay and Karachi are concerned, a partial recovery of the market has already been effected and that the process of recovery will continue until the Indian coal has practically re-established its former position. It is true that the following figures show a decline in the imports from South Africa during the last year or so.

	Bombay. Tons.	Karachi. Tons.	Total. Tons.
1921-22	443,614	18,471	462,035
1922-23	199,549	45,649	245,198
1923-24	296,125	63,217	359,342
1924-25	218,781	77,987	296,768
1925-26 (9 months)	130,383	54,344	184,727

But I think that it will not be safe to accept this decline as proof of a permanent recovery of the market by Indian coal, or to venture upon any prophecy as to how much of the market may be recovered without protection, or how little of it may eventually remain to be recovered if protection was granted. More than once these fluctuations in the import figures have happened and proved by subsequent experience to be deceptive. In 1912-13, the imports from South Africa into Bombay and Karachi rose to 219,000 tons and in the following year they declined to 197,000 tons. The imports in 1921-22 were 462,000 tons. In 1922-23 they dropped by a little less than half to 245,000 tons and it might then have been predicted that South African coal was being rapidly driven out of the Bombay and Karachi markets. The figures for the following year, 1923-24, would, however, have shown that the prediction would have been premature for the imports again rose in that year to 359,000 tons. Since then there has been a decline but this is no proof that they may not rise again, and that our former experience may not be repeated.

Apart from this, there are circumstances which, in my opinion, make it unsafe to assume that the decline in South African imports is due to permanent causes. In August, 1924, out of 139,000 tons of Bengal coal shipped to Bombay since the beginning of the year 50,000 tons remained unsold.* This quantity had to be sold subsequently at sacrificial prices. This is evident from the following statement† of a Bombay middleman before the Coal Committee on the 4th February 1925:—

> "I am getting coal Rs. 6 to Rs. 7 cheaper on the bunder because the Calcutta coal combine and Messrs. H. V. Low and Company Limited, have had to dispose of their stocks at a great sacrifice. I got a parcel of 7,000 tons of Bengal coal."

The Bombay market was apparently overstocked with Indian coal. This can only be regarded as a temporary feature accounting for the smaller imports of South African coal which it was for the time being pushing out of the market.

There is one other factor which cannot wholly be ignored. Since 1924, South African coal has found a more extensive market in the Straits, Colombo, and in the East African and Red Sea ports where South Africa has been able to sell nearly 200,000 tons more of Natal coal alone than in the previous year‡. Indian coal was unable to compete in these markets and the existence of this outlet has made it the less necessary for South African coal to cut down prices in Bombay and Karachi and to compete there against Indian coal. This may partly explain the decrease in the imports from South Africa into Bombay and Karachi. If pressure in the other markets increase, a revival of South African competition cannot be regarded as improbable in the markets of Bombay and Karachi.

*See page 211, Vol. II of the Indian Coal Committee's Evidence.
†*Ibid* page 274.
‡Report on South African Harbours and Railways, 1924-25.

The objection to the countervailing duty discussed in this paragraph loses much of its weight if my contention that the duty, if imposed, will not raise the price of coal to the consumer and may result on the whole in a nett gain to the country, is correct. If a permanent recovery is in fact taking place as alleged, there is little point in refraining from a measure which expedites the process without calling for any sacrifice on the part of the consumer or of the country.

Past deterioration in quality of coal partially disentitles industry to assistance.

43 Another objection is that during the years immediately following the war, the quality of Indian coal sent to the overseas markets and particularly Bombay and Karachi was very unsatisfactory, that the Indian Coal industry was partly responsible for it and that therefore it cannot now ask for help at the expense of the consumer or of the country. This last part of the objection has already been disposed of. Neither the consumer nor the country is called upon to make any sacrifice. As regards the deterioration in quality during the particular period there can be no question. The coal trade has not denied the charge, and I agree with the opinions of the Coal Committee and of my colleagues on that point. I have no hesitation in stating that the condemnation of the Indian coal was at the time well deserved. There was a genuine distrust in the minds of the purchasers of that coal, and the use of the word "prejudice" by the trade to describe it was grotesque. I cannot, however, confidently hold, upon the evidence on record, that the feeling of the consumer to-day in rejecting good quality coal, when it is offered to him, is not appropriately described as prejudice*. Part of the responsibility for the deterioration of the quality of Indian coal undoubtedly rests upon the shoulders of the coal trade, but I am unable to fix it to an extent which would justify the rejection of its application on that ground There are far too many persons and circumstances connected with that fact to permit of a fair distribution among them of the blame. To mention only a few; there was scarcity of coal, foreign coal having practically disappeared, at a time when the local demand for it was intensified by an unprecedented trade boom; there was the shortage of transport both by rail and sea and consignments had to be made up to suit the facilities available for them; there was the control of wagons which transferred part of the trade from the hands of the producers to those of speculators†; there were the railway and port authorities who failed to provide that careful handling and loading rendered necessary by the quality of Indian coal and who were, in the opinion of the Coal Committee‡, for that reason responsible jointly with the trade for some deterioration though in different degrees; there was the embargo, which necessitated licences, and made it

* See evidence of Messrs. Andrew Yule & Company, p. 223, Vol. II of the Indian Coal Committee's evidence.

† Evidence of Mr. Hawkins, Coal Transportation Officer, pp. 58 and 86, Vol. II of the Indian Coal Committee's evidence.

‡ Pages 87 and 95, Vol. I of the Indian Coal Committee's Report.

possible for dealers to ship whatever quality of coal was available; there was the consumer in Bombay who took no precautions and who was anxious to get Indian coal (foreign coal being then not available) of any kind at any price*, for the cotton mills of Bombay had to be kept going during a "boom" period and there was the middleman in Bombay who in that circumstance had an opportunity of making huge profits for any coal that he could get and sell.* This list is not exhaustive, but it gives some idea of the difficulty of assessing the blame which each of the parties must bear. To justify the refusal of protection the share of the responsibility properly falling to the Coal industry itself must be shown to be substantial and definitely established and, in my view, this cannot be done.

Unfairness of restricting the consumer's choice.

44. Further, it is urged that it is unfair to restrict the consumer's choice by making the coal to which he is accustomed dearer for him, and compelling him to buy other coal which he is said not to like. Such an objection does not take sufficient account of the distinction between the rights of a consumer under the different systems of Free Trade and Protection. In the latter system, however "discriminate," he holds a weaker position than he does under the former. Protection necessarily involves hardships on the consumer from which he is exempt under Free Trade. He is lucky, as indeed he is in this case, if his burden is not increased, and a domestic commodity of the same quality as that of the foreign one is rendered available for him. Once the principle of protection is applied to an industry, some restriction on the consumer's choice can no longer be regarded as one of the decisive factors. If it is, in many cases the granting of protection may present serious difficulties. In this case, moreover, the consumer has in the past taken little or no reasonable care to safeguard his own interests. Some responsibility rests on him also for the inferior quality of the coal which he has accepted in the past, and if he is now called upon in the national interest not to make any sacrifice but to be a little more vigilant, he cannot reasonably complain.

Retaliation by South Africa.

45. The total value of the imports of Indian merchandise into South Africa is much greater than the value of the exports of South African merchandise to India. It may be urged as an objection that the imposition of countervailing duties may lead to economic retaliation by South Africa by which the gain to India resulting from the imposition of a countervailing duty may be more than counterbalanced and India may on the whole turn out to be a loser. I will examine the position purely from an economic point of view. I give in Appendix XI, from the official Year Book of the Union of South Africa for 1924, the figures of imports into and exports from

* For what was described as "one of the worse of Indian coals" as much as Rs. 125 per ton was paid, the middleman's profit being Rs. 25 per ton, page 279, Vol. II of the Indian Coal Committee's evidence.

South Africa.* It appears from the table that the principal articles of import are bags for coal, grain, sugar and wool which in 1923 accounted for over one million pounds out of the total imports of £2,300,000 odd. These, I presume, are jute bags in which India has a practical monopoly. It is doubtful whether South Africa would find it to her advantage to shut them out. Cotton manufactures, upon which some emphasis is sometimes laid, amount only to £42,000 which is less than Rupees 6 lakhs per annum and from the point of view of the Bombay mill industry may be treated as negligible. Rice accounts for about £345,000. This is presumably for the use of the Indian population and a heavy duty upon this article may raise its price. But it must be remembered that so long as South Africa employs Indian labour and free rations form part of its wages, (as they apparently do, for instance, in collieries), the whole burden of the rise will not necessarily fall on Indian shoulders. On the whole, therefore, it appears to me that the fears of economic retaliation by South Africa are not well founded.

* I prefer these figures to those from our trade returns. They are likely to be more accurate than ours as they give the quantities which have actually come into the country. Further, our export figures are likely to exaggerate the amounts if exports to Portuguese South Africa are included in and to understate them, if they are excluded from, the exports to South Africa.

CHAPTER VI.

Export Trade, Summary of Conclusions and Recom-

Export trade.

46. Before summarising my conclusions I shall deal briefly with the export trade. The preceding chapters have shown that the competition from South Africa has done far more extensive damage to the Coal industry in the markets outside India than in those of India itself. The amount of Indian coal displaced in these markets is about three times as much as the quantity driven from the various ports of India. The proposals put forward by me, even if they are accepted, will not enable the Indian Coal industry, except to a slight degree, to repair the damage. Unless the Coal industry is enabled to re-capture its former external markets and to develop new ones, it cannot reap any material benefit. The question of the export trade to ports outside India has not been referred to the Board and therefore, no proposals can now be made in that connection. The work of the Indian Coal Committee has resulted in the appointment of a Grading Board and the provision of facilities for the certification of export coal, and should thus do something towards re-establishing the reputation of Indian Coal in Western India, Ceylon, the Straits, etc. It is doubtful whether these measures alone, can take the industry very far. The investigations of the Coal Committee primarily turned on the improvement of transport and handling facilities, and the reduction of transport and handling charges that could be reasonably made by the railways and the ports, having due regard to their own financial requirements and resources They were more concerned to ascertain the sacrifices the railway and port administrations could afford to make than to estimate exactly the assistance required by the Indian coal trade to regain its old supremacy in its former markets. In substance, therefore, the position is that the examination of the question of the export of coal is still incomplete. If it is undertaken at any time, it can no longer be a piece-meal business. It must have for its aim a complete and thorough examination of the coal resources of India and their conservation combined with their economic development, and the proposal of measures which would ensure for the industries situated not only in the vicinity of the coalfields but in the other parts of India, a cheap and continuous supply of coal. It must be proved that the re-growth of a large export trade is compatible with the national interests, and that it will not prejudice the expansion of the larger industries dependent upon those grades of coal which are suitable for export. It will also involve a careful scrutiny of the raising costs and the organization and equipment of the industry, with a view to ascertain whether it has reached that state of development which is necessary for the economic production and export of coal in competition against other countries. An essen-

tial feature of the investigation must be an estimate of the probable effect of the export of coal on its domestic price. Railway and sea freights form two of the principal items in the price of coal. The reduction of railway freights may at once raise the question of the financial obligations of the railway administration to general revenues, while sea freights will involve many problems of their own. Above all, it should not be forgotten that usage and "prejudice" are elements of the situation which involve a higher sacrifice in the re-capture of lost markets than the capture of new ones in which they have already not come into play. These are some of the suggestions that I thought I would like to make if only to point out that the question presents greater difficulties than are discovered at first sight and that its examination cannot be undertaken except after very serious consideration, or completed without very prolonged research.

Summary. 47. My conclusions may now be summarised as follows:—

(1) The South African coal receives a bounty of 6*s.* $3\frac{1}{2}$*d.* = Rs. 4-3-0 per ton in the shape of the reduction of railway freights.

Bunker coal used by ships carrying cargoes of export coal gets a reduction of freight at the above rate which amounts to an additional bounty of 1*s.* 3*d.* = Re. 0-14-0 per ton on every ton of export coal. This may be regarded as a subsidy on sea freights. The total bounty is thus 7*s* $6\frac{1}{2}$*d.* = Rs. 5 per ton.

(2) The bounty is part of a deliberate policy of the South African Government which aims at the development of the export trade in coal, a result which could only be obtained at the expense of Indian coal which is its principal rival.

(3) Without the bounty South African coal cannot compete against Indian coal in any Indian or Eastern market, except at a very heavy loss.

(4) Extensive damage has been done to the Indian Coal industry by the competition of South African coal in the Indian and the Eastern markets, and the bounty is the principal cause of this damage.

(5) The displacement of Indian by South African coal in the overseas markets has been facilitated by dissatisfaction with the quality of the Indian coal supplied, by the embargo on the export of coal and by the rise in the rupee-sterling exchange from 1*s.* 4*d.* to 1*s.* 6*d.* These factors, however, are entirely subsidiary and by themselves could not have brought about the success of South African coal.

(6) The circumstances are such that the imposition of a countervailing duty is justifiable in accordance with the policy

of "discriminating" protection and is desirable in the national interest

(7) The imposition of the duty will not raise the price of Indian coal to the consumer.

(8) The consumer can secure good quality coal if he takes advantage of the grading and certification of coal and (*a*) purchases it direct from reputable collieries (*b*) or safeguards himself by obtaining guarantees as to quality from the middleman, if he has to make his purchases through the latter.

(9) Economically and financially, the country will gain by the imposition of the duty.

Recommendations. 48 My recommendations are:—

(1) A duty of Re. 1-8-0 per ton in addition to the present duty of Re. 0-8-0 per ton should be imposed on all South African coal entering India. This should suffice to enable Indian coal to compete successfully against South African coal in any port in India.

(2) The duty should be increased if any counter action is taken by the South African Government or if South African coal still enters India.

P. P. GINWALA—*Member*.

20th April, 1926.

APPENDIX I.

Press Communiqué issued by the Tariff Board on the 6th November 1925.

In the Resolution of the Government of India in the Commerce Department, No. 47-T. (49), dated 30th September 1925, the Tariff Board were directed to enquire into the question whether a protective duty should be imposed on imported coal generally, or on coal imported from any particular country or countries, and, if so, at what rates. The Board have now received from the Indian Mining Federation a representation in which the following proposals are made:—

(1) The imposition of protective duties at the following rates:—

(a) Rs. 5 a ton on coal imported from South Africa;

(b) Rs. 10 a ton on coal imported from any other country;

(c) Half an anna a gallon on imported fuel oil.

(2) The grant of a bounty of Rs. 3 a ton on coal exported to foreign countries.

The grant of a bounty on exported coal is beyond the scope of the reference made to the Board and this proposal will not be considered by them. The proposal that a protective duty should be imposed on fuel oil is also beyond the terms of reference, and raises issues different in their nature from those connected with coal and more far-reaching in their scope. The Board are prepared to admit evidence tending to show that a protective duty might be wholly or partially ineffective unless it were accompanied by a duty on fuel oil and evidence bearing on the comparative cost to industries of using fuel oil or coal, especially in Bombay and Sind. It would have been necessary to examine these aspects of the case even if no proposal for a protective duty on fuel oil had been made. But the Board will not in this enquiry consider the question whether a duty on fuel oil should be imposed, and will confine themselves to the single issue whether a duty should be imposed on coal and, if so, at what rates.

2. The Board will be glad to receive representations from those public bodies, firms and persons who are likely to be affected by the proposed duty on coal and desire to express their views. The Memorandum of the Indian Mining Federation and the Board's questionnaire have been printed and copies can be obtained from the Manager, Government of India Central Publication Branch, Calcutta, or all Provincial Government Book Depôts and authorised Booksellers, price 2 annas per copy.

The questions in the latter sections of the questionnaire are intended for the Indian Mining Federation and the Indian Mining Association, the two organized bodies who represent Indian coal producers. The questions in the first section are general and deal with matters on which the evidence not only of producers but also of consumers and other persons interested in the coal trade is necessary. Some of those who desire to be heard may find it convenient to submit detailed answers to the questionnaire, while those who prefer to express their views in a more general form may find the questions useful as indicating points on which the Board desire to be informed. Some of the questions cannot be answered without local knowledge, and answers by firms and others who possess such knowledge will be of special value.

3. Representations should be addressed to the Board's office at No. 1, Council House Street, Calcutta, and should be sent in so as to reach the Board not later than the 30th November 1925. Representations received after that date cannot be considered. Those firms or persons who desire to give oral as well as written evidence should inform the Board not later than the 20th November. The oral evidence of the representatives of the Indian Mining Federation and the Indian Mining Association will be heard in Calcutta in November, and the Board's subsequent programme will be settled when it is known who desire to give oral evidence.

APPENDIX II.

Consumption of Coal (including coke and patent fuel) in India before and after the war

(In thousands of tons.)

Year.	Gross Indian production.	Wastage and Colliery consumption	Net Indian production (2 *minus* 3)	Exports	Coal retained for Indian consumption	Imports	Total consumption of coal (6 *plus* 7).	Percentage of total. Indian coal %	Percentage of total. Foreign coal %
1	2	3	4	5	6	7	8	9	10
1910 . .	12,047	1,506	10,541	988	9,553	333	9,886	96·64	3·36
1911 . .	12,716	1,590	11,126	862	10,264	340	10,604	96·80	3·20
1912 .	14,706	1,838	12,868	899	11,969	612	12,581	95·14	4·86
1913 . .	16,208	2,026	14,182	759	13,423	858	14,281	94·00	6·00
1921 . .	19,303	2,413	16,890	276	16,614	1,300	17,914	92·75	7·25
1922	19,011	2,376	16,635	77	16,558	1,713	18,271	90·63	9·37
1923	19,657	2,457	17,200	137	17,063	629	17,692	96·45	3·55
1924 .	21,177	2,647	18,530	206	18,324	469	18,793	97·51	2·49
1925	20,753	2,594	18,159	216	17,943	488	18,431	97·36	2·64

Note.—The wastage and colliery consumption has been taken at $12\frac{1}{2}$ per cent in each year. The imports in column 7 include coal imported as Government stores. The figure given for the gross Indian production in 1925 includes the estimated production of the Indian States—875,000 tons as against 902,000 tons in 1924.

APPENDIX III.

Imports of coal into India.

(In thousands of tons.)

Year.	From the United Kingdom	From South Africa	From Australia	From Japan	From all countries	Percentages of total: From the United Kingdom	Percentages of total: From South Africa
1	2	3	4	5	6	7	8
1910	261	18	28	7	333	82·59	5·70
1911	245	19	36	7	340	76·80	5·96
1912	145	176	92	97	612	2[illegible]·85	31·37
1913	185	246	51	97	858	28·68	37 98
1921	474	579	111	129	1,300	36·46	44·53
1922	1,057	527	18	99	1,713	61 70	30 76
1923	130	398	59	5	629	21 62	63·27
1924	115	327	22	2	469	24 52	69·72
1925	129	334	7	7	488	26·43	68 44

The figures in column 6 include Government stores The figures in columns 2, 3, 4 and 5 for the years 1910-1913 do not include Government stores but these imports are included in those columns for the years 1921 to 1925

APPENDIX VI.

Market for coal in Bombay.

(In thousands of tons.)

Year.	Imports of Indian coal.			Imports of Foreign coal.			Total Imports.	Percentage of Total.	
	By Sea.	By Rail.	Total.	British.	South African.	All Countries.		Indian coal.	Foreign coal.
1	2	3	4	5	6	7	8	9	10
1910-11 . . .	869	Not known	869	214	12	281	1,150	75·57	24·43
1911-12 . . .	802	Not known	802	157	25	268	1,070	74·96	25·04
1912-13 . . .	714	71	785	141	206	574	1,359	57·76	42·24
1913-14 . . .	704	53	757	135	167	457	1,214	62·36	37·64
1921-22 . . .	348	291	639	564	444	1,123	1,763	36·31	63·69
1922-23 . . .	89	193	282	373	199	627	909	31·02	68·98
1923-24 . . .	126	113	239	45	296	375	614	38·93	61·07
1924-25 . . .	202	132	334	60	219	289	623	53·61	46·39
April to December 1925 .	175	87	262	42	130	188	450	58·23	41·77

Note.—The import figures in column 7 include Government stores except for the period April to December 1925.

APPENDIX VII.

Market for coal in Karachi (excluding Railway coal).

(In thousands of tons.)

Year.	Imports of Indian coal.	Imports of foreign coal.			Total Imports.	Percentages of Total.	
		British.	South African.	All countries.		Indian coal per cent.	Foreign coal per cent.
1	2	3	4	5	6	7	8
1910-11 . . .	43	13	1	14	56	75·00	25·00
1911-12 . . .	59	13	6	18	77	76·62	23·38
1912-13 . . .	88	11	12	23	111	79·28	20·72
1913-14 . . .	81	12	29	41	123	66·67	33·33
1921-22 . . .	85	45	18	64	149	57·05	42·95
1922-23 . . .	36	46	45	91	127	28·35	71·65
1923-24 . . .	68	17	63	89	158	43·68	56·32
1924-25 . . .	72	28	78	107	179	40·22	59·78
April to December 1925 .	87	16	56	72	159	54·72	45·28

Note.—The imports in column 6 do not include Government stores.

APPENDIX VIII.

Distances to certain ports from Calcutta, Durban and Delagoa Bay.

To	From Calcutta Miles	From Durban Miles	From Delagoa Bay Miles
Aden	3,311	3,166	2,953
Karachi	2,564	3,875	3,675
Bombay	2,112	3,822	3,608
Colombo	1,244	3,615	3,498
Madras	775	4,08[illegible]	3,969
Calcutta	.	4,737	4,585
Rangoon	779	4,741	4,636
Singapore	1,650	5,135	4,900

APPENDIX IX

White paper issued by the Board of Trade.

Extract from the Board of Trade Journal, dated the 5th February 1925

THE BOARD OF TRADE.

SAFEGUARDING OF INDUSTRIES.

Procedure and Enquiries.

It is the intention of the Government that any duties proposed for the safeguarding of industries shall be imposed for a limited period, and in a Finance Bill in which that period will be prescribed. Duties will only be proposed in a Finance Bill if the Board of Trade are satisfied that a *primâ facie* case for enquiry has been established, a Committee appointed by the Board of Trade has reported that a duty ought to be imposed, and the Board and the Treasury concur in the proposal Applications will not be entertained in respect of articles of food or drink.

The Board of Trade, in deciding whether a *primâ facie* case for enquiry has been established, will act in accordance with the general rules laid down in Section I hereunder.

Where the Board of Trade are satisfied that a *primâ facie* case for enquiry is established, the Committee appointed by the Board will be invited to report in accordance with the general rules laid down in Section II hereunder.

SECTION I.

Rules to be applied by the Board of Trade.

The rules to be applied by the Board of Trade in deciding whether to order an enquiry will be as follows:—

(1) The Board must be of opinion that the industry applying for an enquiry in respect of the whole or any part of its production can reasonably be regarded as of substantial importance on account either of the volume of employment engaged in such production or of the nature of the goods produced.

(2) The Board must be of opinion that there is *primâ facie* evidence that the competition of foreign imports in the industry is exceptional, and that by reason of such competition employment in the production of the goods in

question in the United Kingdom is being or is likely to be, seriously affected.

(3) The applicant industry must also show that in the countries from which such competition largely comes, the conditions in one or more of the respects set out in paragraph (5) of the Rules hereunder, for the guidance of Committees, are so different from those in this country as to render the competition unfair.

(4) The Board of Trade will, in their discretion, reserve the right to refuse an enquiry, irrespective of other conditions obtaining in the industry, if they are of opinion that the industry is not carried on in this country with reasonable efficiency and economy, or that the imposition of a duty on goods of the class or description in question would exert a seriously adverse effect on employment in any other industry being an industry using goods of that class or description in production.

If the Board of Trade are satisfied that a *primâ facie* case is established in accordance with the above conditions, the Board will refer the claim for enquiry to a Committee.

Section II.

Instructions to Committees.

A Committee appointed by the Board of Trade for the purpose of such an enquiry will be instructed to report on the following:—

(1) Whether the applicant industry is, by reason of the volume of employment, engaged in the production of the goods to which the application relates, or by reason of the nature of the goods produced an industry of substantial importance.

(2) Whether foreign goods of the class or description to which the application relates are being imported into and retained for consumption in the United Kingdom in abnormal quantities.

(3) Whether the foreign goods so imported are being sold or offered for sale in the United Kingdom at prices which are below the prices at which similar goods can be profitably manufactured or produced in the United Kingdom.

(4) Whether, by reason of the severity and extent of such competition, employment in the manufacture or production of such goods in the United Kingdom is being, or is likely to be, seriously affected.

(5) Whether such exceptional competition comes largely from countries where the conditions are so different from those in this country as to render the competition unfair.

Competition for the purpose of such enquiry is not to be deemed to be unfair unless it arises from one or more of the following causes:—

(a) Depreciation of currency operating so as to create an export bounty.

(b) Subsidies, bounties, or other artificial advantages.

(c) Inferior conditions of employment of labour, whether as respects remuneration or hours of employment, or otherwise, obtaining amongst the persons employed in the production of the imported goods in question as compared with those obtaining amongst persons employed in the production of similar goods in the United Kingdom.

In making their report upon the alleged unfairness of the competition, the Committee may call attention to any special circumstances by reason of which, in their opinion, the industry in the United Kingdom is placed at a serious relative disadvantage.

(6) Whether the applicant industry is being carried on in the United Kingdom with reasonable efficiency and economy.

(7) Whether the imposition of a duty on goods of the class or description in question would exert a seriously adverse effect on employment in any other industry, being an industry using goods of that class or description in production.

(8) Whether, having regard to the above conditions, the applicant industry has, in the opinion of the Committee, established a claim to a duty, and, if so, what rate or rates of duty, in the opinion of the Committee, would be reasonably sufficient to countervail the unfair competition.

Section III.

Constitution of Committees.

A Committee will consist of not more than five persons appointed by the President of the Board of Trade. No person whose interests may be materially affected by any action which may be taken on the report of a Committee will be eligible for appointment as a member of the Committee.

Section IV.

Procedure of Committees.

A Committee to whom a complaint is referred will have power to determine its own procedure, having regard to the particular matters on which it is instructed to report. The sittings of a Committee at which evidence is taken shall be held in public, except that a Committee shall refuse to allow the public to be present at any proceedings of the Committee during the hearing of evidence on matters which, in its opinion, are of a confidential character.

APPENDIX X.

Extract from evidence of certain witnesses before the Indian Coal Committee.

(Referred to in paragraph 39 of the Minority Report.)

Extract from the evidence of Major Duncan Wilson of Messrs. Killick Nixon and Company, Bombay (page 287 of Vol. II of Coal Committee's Evidence)

* * * * * *

The middlemen are to a large extent, I think, responsible for the iniquities imputed to the Bengal Coal trade. I do not say that all middlemen are alike. I think that a certificate system would to some extent restore the confidence of consumers at this end who are dealing with a colliery. As soon as the middleman comes in, interference occurs and the consumer cannot be certain that he gets the real coal he has bought. That is the feeling at any rate. The same thing would, of course, apply to Natal coal. The coal may be diverted on its way from the bunder to destination and another coal substituted.

* * * * * *

The big consumer who takes a whole cargo direct from ships knows that he gets the quality despatched from Calcutta. But if the coal goes to a dealer who stacks it on the bunder, when a month later a mill asks for that particular coal off the bunder, is it sure of getting that particular coal?

* * * * * *

For the Bombay Steam Navigation Company last year and this year we imported largely ourselves. The danger as regards the quality of Bengal coal lies in what may happen between the colliery and Kidderpore. There is no further chance of substitution once the coal is here and put into our own lighters. We know that we get the coal which has come in the ships, but we are not certain whether there has not been substitution at the Bengal end.

* * * * * *

Extract from evidence of Mr. E. Gordon Cameron, Mechanical Engineer, Bombay Municipality (page 248 of Vol. II of Coal Committee's Evidence).

The proposed certificate of grading would be of no use at all to me, because what guarantee is there that the coal delivered at our stack is the coal belonging to the consignment which is covered by

the certificate? The only precaution against mixing of coal or substitution in Bombay is to use analysis. There is no other way to stop mixing here.

* * * * * *

Extract from the evidence of Mr. W. G. Walke (pages 211 and 217 of Vol. II of the Coal Committee's Evidence).

In Bombay I found the millowners disinclined to purchase the coal direct from the owners; they preferred to take the coal through a middleman. The millowners would not purchase the coal ex-ship, but wanted the coal delivered at their mills. I arranged for this; still I found they preferred to take the combine coal through the middleman, which in some cases cost them Rs. 3 to Rs. 4 per ton more than the price I was offering; this was done by mixing the coal with inferior coal and giving short weights. African coal is sold at 2,000 lbs. to the ton whereas Bengal coal is sold by the owners at 2,240 lbs. to the ton. Out of 139,000 tons of Bengal coal shipped to Bombay from 1st January to August 1924, about 50,000 tons is now lying in Bombay unsold.

* * * * * *

I have here 20 certificates of analyses of coal shipped by the "Katherine Park." Mr. Briggs of Messrs. R. B. Briggs & Co., an independent firm, went down to the docks and took samples; he had nothing to do with either buyer or seller. He gave separate certificates for each colliery. I went to Bombay and showed these to the Bombay people; they had absolutely no effect. If you ask why, it was because I refused to do as the middlemen do.

* * * * * *

Bombay prefers to buy through middlemen because of baksheesh. The combine was a temporary combine, meant to become permanent later if all went well. It is still in existence because all the coal shipped is not yet sold. Twenty-five collieries were in it.

* * * * * *

Extract from evidence of Mr. Ratanlal Hiralal, Bombay (page 274 of Vol. II of the Coal Committee's Evidence).

* * * * * *

As regards mixing of coal in Bombay on the coal bunders by the middlemen, Mr. W. F. Walke, late of the Calcutta Coal Combine, told us that we middlemen were mixing coals and robbing the buyers. He found this remark very costly to himself for none of the middlemen would have to do anything with him or his coal.

The middleman is inevitable. He takes the risk and puts up the finance and the business would not go on without him. Take the 1924-25 Municipal contract. I undercut everybody by Rs. 2 per ton, taking the risk of the market because I was firmly of opinion that prices must come down. The c.i.f. price when I made the contract last year was Rs. 21-8-0 per ton but during the period of the

contract I have been able to purchase coal at from Rs. 4 to Rs. 5 per ton less than this rate not c.i.f. but actually on the bunder at Bombay.

I speculated on the market, that is the middleman's business. He does not produce or consume coal but is always acting for the advantage of the consumer by keeping prices down.

I have been able to purchase coal far cheaper than the rate at which I have tendered. I am getting coal Rs. 6 to Rs. 7 cheaper on the bunder because the Calcutta Coal Combine and Messrs. H. V. Low & Co., Ltd., have had to dispose of their stocks at a great sacrifice. I got a parcel of 7,000 tons Bengal coal at Rs. 17 per ton on the bunder—half first and half second class Bengal. I entered into a contract with the Bombay Improvement Trust at Rs. 21-6-0 (I had originally quoted Rs. 21-2-0) and Rs. 21 was then the price on the bunder. The contract was for genuine good second class Bengal coal. I am now able to supply them with half first class and half second class and am making a clear profit of Re. 1-8-0 per ton. This is on calories.

I could not possibly work so cheaply if I did not look to efficiency in details. For example, I save annas eight per ton by arranging speedy discharge of steamers. I am able to obtain boats at a rate which works out cheaper than people can manage who have their own boats, because there is a depression in trade. I can obtain labour more cheaply than other merchants because working on a large scale I command more. I have cheap transport because I have my own fleet of lorries purchased at ridiculously cut prices.

Extract from evidence of Mr. A. Bigger of Messrs. Bird and Company (page 239 of the Coal Committee's Evidence).

I admit that there is the risk that when we sell to a middleman he may substitute one quality for another. We should then get a bad name. That, I am afraid, is quite true. But the only alternative is to sell direct.

APPENDIX XI.

(Referred to in paragraph 45.)

Analysis of Trade between the Union and India.

1910 to 1923.

Classification.	Average 1910-14.	Average 1915-19.	1921.	1922.	1923.
Imports.					
	£	£	£	£	£
Total imports ...	1,007,331	2,208,137	1,797,180	1,919,936	2,317,217
Rice (including paddy) ...	280,896	326,570	132,716	295,567	345,611
Tea ...	42,366	160,297	213,723	212,349	219,241
Food and Drink (N. O. D.) ...	81,538	166,225	139,817	117,633	193,387
Wood (Unmanufactured-Teak) ...	64,317	63,992	142,960	65,915	108,420
Cotton Manufactures ...	8,091	152,433	115,023	47,718	42,528
Apparel and slops ...	15,949	35,100	130,613	162,784	97,070
Bags (Coal, Grain, Sugar and Wool) ...	350,733	885,509	667,965	740,565	1,001,413
Wax (Paraffin) ...	33,818	164,289	45,988	55,365	69,636
Carpets and Floor Rugs ...	4,038	20,645	39,604	52,494	47,628
Bagging (Jute and Hessian) ...	20,277	63,777	34,129	50,058	50,579
Exports.					
Total exports ...	60,928	70,889	1,000,534	443,107	2,038,893
South African produce ...	58,285	64,533	978,316	428,461	2,028,247
Coal (Cargo) ...	55,804	28,142	868,497	412,920	322,413
Wattle Bark ...	...	11,317	6,500	3,220	3,331
Sugar ...	.	.	94,093	...	
Gold (Raw) ...	140	...	...	...	1,677,957
Coke and Patent Fuel ...	...		1,619	5,673	18,380

Note by Mr. P. P. Ginwala regarding the injury inflicted on the Indian Coal Industry by the competition of the South African Coal and the reasons which have brought about the success of the latter.

CHAPTER I.

The extent of the injury inflicted on the Indian Coal Industry by the competition of South African coal.

Subject of the note

The various proposals which have been made for the grant of special assistance to the Coal industry all owe their origin to the fact that South African coal has ousted Indian coal from all its export markets except Ceylon, and has displaced substantial quantities of Indian coal in Ceylon, Bombay and Sind. In these circumstances it seemed to me desirable that the extent of injury inflicted on the Indian coal industry should be brought out, and that the reasons for the success of South African coal should be more fully examined than they have been in the Majority Report. The conclusions to which my investigations have led me, however, are not substantially at variance with those arrived at by my colleagues, and I was anxious to confine my Minority Report, as far as possible, to the points on which I differ from them. For this reason I have preferred to examine the topics alluded to above in a separate note. In the first Chapter, I shall estimate the injury inflicted on the Indian Coal industry by the competition of South African coals, in the second, I shall discuss the reasons which account for the rapid growth in the exports of coal from South Africa, and in the third, I shall attempt to determine the amount of the bounty which coal exported from South Africa receives.

Relative position of Indian and South African coal in the overseas markets before the war.

2. Indian and South African coal are in competition in three distinct regions, *viz* :—

(1) The ports of India and Ceylon.

(2) The Far East, which includes the Straits Settlements, Sumatra, Java and Hongkong, and

(3) The Red Sea area, which includes Aden, Perim and Port Sudan

Before the war Indian coal had something approaching a monopoly in the Indian ports and in Ceylon, for the imports of British coal were of a class which India does not produce, and the imports of South African coal were negligible until 1912. To the Far East,

India exported substantial quantities of coal and particularly to the Straits Settlements and Sumatra, but in those regions had to meet the competition not only of British but also of Japanese and Australian coal. Only small quantities of Indian coal were exported to Aden and the Red Sea ports. No analysis of the pre-war exports of coal from South Africa is possible, for the countries of destination have not been ascertained, but a comparison of the Indian import figures with the South African export figures discloses the fact that out of 223,000 tons of coal exported by South Africa in 1911 and 1912, nearly 200,000 tons were taken by India. It is obvious that South Africa was not a serious competitor in any of the other markets. In 1913, the South African exports rose to 764,000 tons of which India took 246,000 tons and in that year for the first time, South African coal may have begun to displace Indian coal in the Far East. It was apparently about this time that the South African Railways began to allow a rebate on export coal.

The overseas markets in India after the war.

3. During the war years and up to the end of 1920, Indian and South African coal were hardly in competition, for the restrictions on shipping made the free movement of coal impossible. The post-war period, therefore, begins in 1921. It would be natural to take the average figures for the five years 1921 to 1925 as typical of the post-war conditions, but the distribution of South African exports over the countries of destination is not possible till 1922-23, and it seemed more convenient to take the average of the three years 1922-23 to 1924-25 for the South African coal and 1922 to 1924 for Indian. In addition, since the South African exports showed a tendency to rise during the period, it will be desirable to refer also to the figures of the latest year 1924-25 (1925 for Indian coal). The contrast between the pre-war and post-war periods is striking. The shipments of coal from Calcutta to the Indian ports which before the war had averaged 2,200,000* tons, dropped to an average of 917,000* tons for the three years 1922 to 1924, but recovered to 1,026,296 tons in 1925. This decline of 50 per cent. was not due entirely to foreign importations, but also to the displacement of coal by fuel oil and electricity in Bombay, where the annual consumption of coal is now only 600,000 tons as against 1,200,000 tons before the war. The imports of South African coal, which before the war averaged 147,000 tons, rose to an average of 373,000† tons from 1922 to 1924, but amounted only to 327,000† tons in the last year of the quinquennium. During the first three years of the period, South African coal acquired a foothold in Madras and Burma, but was unable to maintain its ground, and in 1924 and 1925 the imports from South Africa were negligible. It is in Bombay and Sind that the imports of South African coal are substantial, and it is in these markets that Indian coal has been displaced. From 1921 to 1925, South African coal

* Appendix III of the Indian Coal Committee's Report.
† Appendix XI of the Indian Coal Committee's Report.

has been imported into Bombay at the rate of 266,000 tons a year and into Karachi at the rate of 55,000 tons a year, making a total of 321,000 tons a year. For the first nine months of 1925-26, the imports have been at the rate of 250,000 tons a year. The whole of the South African coal imported into Bombay and Sind displaces Indian coal.

Ceylon.

4. Before the war, the exports of Indian coal to Ceylon averaged 500,000 tons a year but from 1922 to 1924 averaged only 123,000 tons with a recovery to 194,000 tons in 1925. On the other hand, the South African exports to Ceylon, which averaged 26,000 tons a year before the war, have increased to an average of 289,000 tons in the post-war period and to a maximum of 316,000 tons in 1924-25. Ceylon is the only export market of which Indian coal has managed to retain some hold, but even here the inroads of South African coal are a serious menace. The South African coal industry has gained and the Indian coal industry has lost a quarter of a million tons in Ceylon.

The Far East.

5. In the pre-war years, India exported 300,000 tons of coal annually to the Far East, but since the war her exports to this market have been negligible. Here South Africa has gained more than India has lost The exports of South African coal to the Far East, which before the war were negligible (except possibly in 1913), rose to an average of 387,000 tons in the post-war period, and to a maximum of 504,000 tons in 1924-25. In this region South Africa has increased the sales of its coal by half a million tons, 300,000 tons at the expense of India, and 200,000 tons at the expense of other competitors.

Aden and the Red Sea Ports.

6. Only comparatively small quantities of Indian coal have ever been exported to Aden and the Red Sea ports, but since the war South Africa has been able to develop an extensive trade During the three years 1922-23 to 1924-25, the exports of South African coal to these markets have averaged 286,000 tons a year with a maximum of 379,000 tons in 1924-25. This is a potential market for Indian coal of not less than 350,000 tons which South Africa has been able to capture.

Extent of injury inflicted by South African competition.

7. The position may be summarised as follows:—South Africa has captured markets formerly held by Indian coal to the extent of 850,000 tons a year made up as follows:—

	Tons.
Bombay and Sind	300,000
Ceylon	250,000
The Far East	300,000

In addition South Africa has increased its sales in the Far East to the extent of 200,000 tons at the expense of other competitors,

and has developed in the Red Sea area a trade which now amounts to 350,000 tons. The Red Sea market is one which has never been held by India, but it is one which Indian coal might reach if South African were eliminated. It is not unreasonable to estimate India's potential share in these areas as one-half of what South Africa at present supplies, that is 275,000 tons. The total loss to the Indian Coal industry occasioned by the competition of South African coal is thus 1,125,000 tons. This is, I think, a fair estimate of the injury done to the industry.

CHAPTER II.

Reasons for the success of South African coal.

Possible causes of the success of South African coal

8 In Chapter I, I have tried to estimate the extent of the injury done by South African coal to the Indian Coal industry in its home and foreign markets. In this Chapter, I shall discuss the causes which have brought about this result. It is necessary in the first place to consider whether the success of South African coal is due to differences in the conditions—natural or economic—under which the industry is carried on in South Africa and in India. The points to be examined in this connection are as follows:—

(1) The distances from the collieries to the ports.

(2) The distances from the ports to the overseas market.

(3) The raising cost of coal.

(4) The pithead price of coal (*a*) for domestic consumption and (*b*) for export.

(5) The quality of the coal.

India at no disadvantage in distances

9. It is clear that in respect of the distances which separate the collieries from the ports, the advantage lies with India and not with South Africa, and the South African Coal Commission drew attention to the fact in their Report. Hattingspruitt, the centre of the Natal coal field, is 240 miles from Durban, and Witbank (the principal colliery) in the Transvaal, is 276 miles from Delagoa Bay, whereas in India Jharia is only 170 miles, Asansol 132 miles, and Raniganj 121 miles, from Calcutta. The railway freight on coal exported from India should ordinarily be lower than the freight on coal exported from South Africa. It is equally clear that Calcutta is nearer to almost all the markets in which the two coals compete than any South African port. The following table gives the distances:—

	Calcutta.	Bombay.	Karachi.	Madras.	Rangoon.	Colombo	Singapore.	Aden
	miles.	miles	miles.	miles	miles	miles	miles.	miles
Durban to	4,737	3,821	3,875	4,086	4,741	3.615	5,135	3,166
Delagoa Bay to	4,585	3,608	3,675	3,969	4,636	3,498	4,900	2,953
Calcutta to	...	2,112	2,564	775	779	1,244	1,650	3,314

It will be seen that, with the single exception of Aden, every one of the ports in the list is much more distant from Durban and Delagoa Bay than it is from Calcutta. The voyage from Durban to Bombay is nearly twice as long, to Colombo and Singapore about three times, to Madras five times, and to Rangoon six times as long as the voyage from Calcutta. It is true that distance is only one of the factors which determine the level of sea freights, but the disparity in this case is so great that ordinarily India should possess a distinct advantage.

10. The opinion has sometimes been expressed that the raising cost of Natal coal is lower than that of Jharia coal. The Mining Association, for example, state that "though they have no definite information on the point, they have reason to think that present raising costs in South Africa are about 6 shillings per ton which is equivalent to Rs. 4 per ton at the present rate of exchange here." The Coal Committee (page 125 of their Report) remark "Apart from quality, the factor which has enabled South African coal to compete so successfully with Indian coal is its low cost of production." The Committee found that the average raising cost of Jharia coal was about Rs. 5 a ton and if the Mining Association's figure is correct, Natal has an advantage of Re. 1 a ton. It is possible that coal can be raised more cheaply in South Africa than in India, but the evidence on the subject is quite insufficient to prove this definitely, and it would be unsafe to found conclusions upon it. It may be pointed out that in 1924, the average price realised at the pithead for Natal coal was 8*s*. 9*d*. per ton and if the Natal costs are as low as 6 shillings per ton, the collieries made a profit of 2*s*. 9*d*. per ton which is hardly probable, having regard to the internal competition which is said to be extremely keen. It may be added that a lower raising cost gives one country no advantage over another save in so far as it is reflected in a lower selling price. I shall touch on the question of raising costs again when I have discussed the prices.

The raising cost of coal

11. Annexure B gives the pithead price of Natal and Indian coal from 1913 to 1925. The Natal prices are taken from the October, 1924, issue of Statistics which is published monthly by the South African Government. The prices given appear to be the average prices actually realised, the total receipts being divided by the number of tons sold by all the collieries. Natal coal is of fairly uniform quality, the total number of mines is small (only 31 in 1924) and the figures may therefore be taken as reliable. It is far more difficult to ascertain the price of Indian coals or to decide what class of coal should be treated as representative. The prices given in Annexure B were supplied by the Mining Association as the actual prices at which contracts for "first class Jharia" coal were made, but at the suggestions of the Association the prices for January, 1923 and 1924, and for November, 1924, have been taken from Indian Coal Statistics, 1924. The prices of "selected Jharia," the Association

Pithead prices of South African and Indian coal.

say, would usually be higher by 12 annas and of Deshergarh by Re. 1-8-0 a ton. In making the comparison between the Natal prices and the Indian prices, allowance must be made for the fact that the first are the average prices actually realised and the second are the prices at which large purchasers would buy at a particular period. The following points emerge from an examination of Annexure B:—

(1) Before the war the pithead price of first class Jharia was lower than the price of Natal coal by at least Re. 1 a ton.

(2) From 1916 to 1920, owing to the restrictions on shipping, Indian and South African coal were not directly in competition, but during that period the price of South African coal went up by 100 per cent. while the price of first class Jharia did not rise appreciably till near the end of the period.

(3) In 1921-22, when South African coal was displacing Indian coal in all the overseas markets, its pithead price was higher than in any previous year and exceeded the price of first class Jharia by Rs. 5-6-0 a ton.

(4) During 1922, the price of Natal coal was falling and the price of Indian coal was rising, and by January, 1923, the price of first class Jharia was higher than the price of Natal coal by at least Rs. 2-4-0 a ton.

(5) In 1923 and 1924, the price of Indian coal was falling but throughout these two years Natal coal was the cheaper.

(6) The 1925 price of Natal coal has not been ascertained, but it is probable that by November, 1925, the price of first class Jharia was once more below the price of Natal coal.

It does not seem possible on the figures given to establish a definite relation between the pithead price, and the growth of the South African export trade. It is certain at any rate that in 1921, when Natal coal established a firm hold on the overseas markets, it was not a question of price at all, for it was not until the year 1922 was far advanced that the Indian price became the higher. It is true that for a period of about three years South Africa had the advantage of a lower pithead price, but the volume of the South African exports did not vary according to the difference in the prices. In 1922, Indian coal was entirely expelled from the Straits, whilst in Colombo its market had dropped from 685,559* tons in 1920 to 76,742* tons in 1922. In 1923, when Indian prices reached their highest point, the South African exports instead of increasing showed a slight decline. In 1924, however, when Indian prices were on the downward grade, and when in 1925 they reached a point below the Natal prices, the South African exports show an improvement over the figures of 1921-22 and 1922-23.

* See Appendix II of the Indian Coal Committee's Report.

Pithead export prices.

12. It may be argued that the fact that the average pithead prices of Natal coal were higher than those of Indian coal is no evidence that Natal coal for export was not sold at a lower pithead price than Indian coal. In the absence of sufficient data as to the sea freights, and the respective prices at different ports of the two rival coals, it is not easy to apply this test to the earlier periods or to all the markets. But, so far as the Bombay market is concerned, it can reasonably be established that in January 1925, and since that date, the pithead price realised on coal exported from South Africa has not been lower than the domestic price. Taking 30 shillings per ton as the price, c.i.f. Bombay of Natal coal in January, 1925, the figures work out as follows:—

	s.	d.	s.	d.
C.i.f. price			30	0
Less—				
Railway export freight .	6	3½		
Sea freight . . .	12	0		
Port charges . . .	1	2½		
Agency and other charges .	1	0	20	6
Export pithead price			9	6

The average pithead price of Natal coal at the end of 1924 was 8*s.* 9*d.* per ton (*vide* Annexure B). The agency and other charges are not exactly known, but, even if they are higher than I have taken them, the export price would still be no higher than the average pithead price. The fact that the pithead price of South African coal sold for export is apparently as high as 9 shillings (=Rs. 6) a ton is of some importance, because it makes it clear that, even if the raising cost is lower in South Africa than in India, it has not been reflected in a correspondingly low price. It is not clear, therefore, that this factor has played any part in bringing about the success of South African coal.

The quality of Indian and South African coals.

13. In dealing with the quality of Indian and South African coal, there are two aspects of the case which must be kept distinct, *viz.*, the intrinsic quality of the coal which can be produced in either country, and the actual quality of the coal which reaches a particular market. Both aspects must be considered. As regards the intrinsic quality of the coal that can be produced, the Coal Committee made it clear that India is at no disadvantage. After weighing all the evidence laid before them by experts that body came to the conclusion that the best Indian coals were at least as good as the average level of the best Natal coal, that they are distinctly better than the average Transvaal or Japanese coal and that they could compete, as far as quality was concerned, in any market in the East. The evidence taken during the Board's enquiry is to the same effect.

But though the best Indian coal is intrinsically as good as the best South African, it by no means follows that the same could be said of the Indian coal which actually reached the overseas markets in recent years. From the evidence taken by the Coal Committee and in the Board's enquiry, it is clear that much inferior coal has been shipped from Calcutta and the dissatisfaction of the consumers overseas with the quality of the Indian coal they received has contributed to the success of South African coal. At Bombay, for example, many purchasers will not buy the best Indian coal except at a price lower by Rs. 2 a ton than the price of Natal coal. The Coal Committee pointed out that, if Indian coal was to regain its hold on the overseas markets, only the best coals should be exported, and particular care taken not to allow the purchaser overseas to be misled as to the precise quality of the coal to be delivered. It was chiefly lack of attention to these two vital points which in the opinion of the Committee, had earned for Indian coal a bad name overseas. The proposal made by the Coal Committee for the appointment of a Grading Board has been accepted and acted upon by the Government of India, and should result in enabling the Indian coal to compete successfully as regards quality against South African coal. The alleged inferiority of Indian coal will, it may be hoped, soon be regarded as a question of historical and not of any practical interest.

Complaints regarding the quality of the coal exported from South Africa prior to 1921.

14. Before quitting this aspect of the case it may be worth while to point out that before the South African Government appointed the South African Coal Commission in October 1920, complaints were made about the quality of the coal exported for South Africa similar to those made concerning Indian coal. Possibly if a compulsory Grading Board had not been appointed on the recommendation of that Commission, South African coal might have suffered in reputation in the same way as Indian coal has done. South African coal also suffered from a further disability, namely, spontaneous combustion, which was a serious disadvantage as compared with Indian coal, but which was removed by suitable action taken by the South African Government on the recommendation of the Coal Commission. The observations of the Commission on the importance of exporting only good coal are on the same lines as those made by the Indian Coal Committee and for that reason are of interest. They said—

> "It is therefore of the utmost importance that control should be established over coal shipped. Coal should be graded and a system of regular enquiry should be instituted so as to ensure that the buyer is getting what he contracts for and, if possible, that the coal shipped is not liable to ignite spontaneously and thereby endanger valuable ships and cargoes and still more valuable lives. If the buyer, tempted by an unusually low price, is still ready to take inferior or otherwise undesirable coal, he should at all events know what he is buying and be made aware of the facts that he can get better coal if he wants."

Success of South African coal cannot be explained by the causes hitherto discussed.

15. My examination of the facts up to this stage has brought out the following points :—

(1) The Indian collieries are nearer their port than the South African collieries and *primâ facie* Indian coal should have the advantage of a lower railway freight on export coal.

(2) Calcutta is much nearer the overseas markets than any South African port, and in respect of sea freight Indian coal is at no disadvantage.

(3) No definite relation can be traced between the fluctuations in prices and the growth of South Africa's export trade, but South Africa acquired its hold on India's overseas markets at a time when the pithead price of Natal coal was much higher than the price of the best Indian coal.

(4) The evidence available suggests that the pithead price realised on coal exported from South Africa is not lower than the average price realised on all sales.

(5) The raising cost of coal may be lower in South Africa than in India, but this is not certain, and it is not reflected in a selling price as low as or lower than the Indian raising cost.

(6) The best Indian coal is intrinsically as good as the best South African coal.

(7) The quality of much of the coal shipped from Calcutta in recent years has been inferior, and the dissatisfaction of consumers with it has contributed to the success of South African coal.

(8) The establishment of a Grading Board in South Africa has been successful in securing the export of high class coal only, and the establishment of a Grading Board in India may be expected to have the same result.

The share which the inferior quality of the Indian coal sent to the overseas markets may have had in promoting the success of South African coal is difficult to determine precisely. I do not, however, propose to examine the point minutely in this note. It will suffice to say that by itself it could not have produced any considerable effect. Had there not been other and much more powerful causes at work, the unpopularity of Indian coal would not have led to the invasion of its former markets by South African coal. To these other causes I now turn.

Unified management of South African railways and harbours.

16. The South African Government is in a stronger position to take measures for stimulating the growth of an export trade than the Government of India. The railways and harbours of the country are under the same management,

and both are Government concerns, and by reason of this fact the administration of the railways and of the ports can be co-ordinated to a much greater extent than is possible in India. Further, the management of the railways is not complicated, as in India, by the existence, side by side, of railways owned as well as managed by the State, and railways substantially owned by the State but managed by private companies. The non-existence of any conflict between Government and company interests makes it easier for the South African Government to invoke, when necessary, the assistance of the railways in the furtherance of national interests. It makes it possible, for instance, for the South African Government to assist industries by adjusting the railway tariffs, a policy less likely to provoke criticism or to invite retaliation than the payment of direct bounties. The combination of the management of the harbours with that of the railways also enables the Government to secure to exporting industries advantages such as special facilities for export cargo, favourable port rates and the like. The result, therefore, is that rebates, concessions and facilities, which might under other circumstances be denounced and penalized by foreign countries as bounties, may attract but little attention, and sometimes pass unnoticed.

The South African railways managed so as to pay their way but not to make profits.

17. Far more important even than the unified control of railways and harbours of South Africa by the Government, as against their mixed organization in India, is the difference in the principles of railway administration in the two countries, which is largely answerable for the lower tariffs of South Africa. The South Africa Act of 1909, by which the railways of South Africa were consolidated and brought under Government control, lays down—

> " (*a*) The railways, ports and harbours of the Union shall be administered on business principles, due regard being had to agricultural and industrial development within the Union and promotion, by means of cheap transport, of the settlement of an agricultural and industrial population in the inland portions of all provinces of the Union:
>
> (*b*) So far as may be, the total earnings shall not be more than are sufficient to meet the necessary outlays for working, maintenance, betterment, depreciation and the payment of interest due on capital, not being capital contributed out of railways or harbour revenue."

The railways are thus to be administered on " business principles," but these principles do not contemplate that railways should earn more than would suffice to pay their way. An examination of the South African Railway Administration Reports shows that the nett return on capital was about $4\frac{1}{2}$ per cent. in 1924-25. After defraying the charges for interest the railways were left with a surplus of about £800,000.

Indian Railways managed so as to earn profits.

18. The financial principles by which the railway administration is to be guided in India have not been laid down in any enactment. It has, however, been the recognized policy of the Government of India to make, if possible, a profit out of the administration of the railways, and to absorb the whole of it as part of the general revenues of India. This has naturally a detrimental effect on the efficiency of the administration and on the recommendation of the Ackworth Committee, the railway finances were separated from general finances. This, however, did not affect the policy of making a profit out of the railways. The policy remained the same, except that the profit was to be shared between General Revenues and the Railway Administration. The new arrangement was effected by a resolution adopted by the Legislative Assembly on the 20th September, 1924. To show how this arrangement has worked in practice I cannot do better than refer to a few facts brought out in paragraph 29 of the Report on Indian Railways for 1924-25. In that year after all interest charges and other expenses had been defrayed and provision made for the loss on strategic railways, the surplus of railway revenues amounted to a sum exceeding 13 crores. This was the equivalent of a nett return of 5·85 per cent. on the total investment, and a profit of 1·96 per cent. over and above the interest charges. The East Indian Railway, which is one of the principal railways serving the coalfields, yielded nearly 7 per cent. nett on its capital and 3 per cent. profit over the interest charges. The actual contribution in respect of the profits for 1924-25 from commercial lines to general revenues is estimated to be approximately 8·94 crores.

Profits from railways inconsistent with low freights.

19. It is clear from the arrangement between the railways and the Government and the results given above, that railways have to be administered in India as in South Africa on "business principles." But the main idea underlying these "business principles" is the realisation of high dividends on investments in railways. They furnish a striking contrast to the "business principles" of the South African railways where no profits or dividends are contemplated, if indeed, they are not forbidden by law. It is impossible to combine in one system the advantages of a high dividend earning business organisation and the building up, in addition, of reserves, to secure the payment of such dividends, and low railway freights. If the taxpayer as a shareholder wants his burdens lightened by obtaining revenues from his railways, he must submit to the drawbacks of higher freights which his industries have perforce to bear. He cannot have it both ways. He has to choose between the two, and for the present, at any rate, he has made his choice. Until he makes up his mind to give up his profits in favour of low railway tariffs, the Coal industry, like any other industry in which transport is the essence of its existence and expansion, is likely to suffer in competition with other countries where a different policy prevails.

20. I have thought it desirable to dwell on this aspect of the Indian railway administration, not for the purpose of criticising the policy of the country for the sake of criticism, but to explain the difficulty of recommending a reduction of railway freights, as a means of helping the Coal industry. The financial arrangements must be recognised as an existing fact which not only militates against such a recommendation but even precludes in my opinion, the examination of the question whether the railway freights on export coal are higher than the commodity can bear, or the financial interests of the railway administration require.

A dividend earning policy precludes consideration of a reduction of freights.

21. How far the South African Government had adopted before the war a definite policy of encouraging the export of coal is not clear, and the execution of any plans that may have been formulated was necessarily suspended until the war was over. It is known, however, that a rebate of half the domestic freight was paid on export coal, and that in 1913 there was a very marked increase in the exports of South African coal to India and the East. The period between 1914 and 1920 may be taken as the war period, and South Africa, like many other belligerent countries, had no time to pay any attention to its coal or other industries. Though the total annual exports of coal approached or slightly exceeded 700,000 tons during this period, the quantities shipped and the destination to which the coal was sent were dictated by the exigencies of the war, and not by a policy designed to assist the industry. Indeed the rebate of the railway freight on export coal, which was formerly allowed, was suspended. By 1920, however, the restrictions of the war period were passing away and the South African Government evidently felt that the time had come when the position of the export trade in coal should be reviewed and the measures to be taken for its development decided. In October, 1920, the South African Coal Commission was appointed and it submitted its report in April, 1921. Its terms of reference were similar to those of the Indian Coal Committee, and its observations, so far as the grading of coal was concerned, have already been quoted in another part of this note. The following points were brought out in the report:—

Systematic policy of South African Government to stimulate the export of coal.

(1) South African export coal was handicapped—

(a) by the absence of precautions to prevent the export of any except the best coal the country produced,

(b) by insufficient railway facilities, and

(c) by "the difficulty of securing regular shipping freight at a reasonable price."

(2) India, the East and the Far East were *inter alia* the principal and natural export markets for South African coal.

(3) Indian coal was in these markets one of its competitors. The claim to India, the East and the Far East as

"natural" markets for South African coal is of special significance, and was first put forward by the Commission in any published official document (*vide* Annexure C).

22. Whatever the position may have been at an earlier date the appointment of the Coal Commission clearly indicates the adoption by the South African Government of a deliberate policy to foster the export trade in coal. As soon as it had satisfied itself as to the possibilities of the export trade, the direction from which competition was felt, and the causes which handicapped South African coal, the Government bent its energies deliberately and systematically to the task of providing suitable and effective remedies. The principal measures adopted were—

Adoption of effective measures to stimulate exports.

(*i*) the compulsory grading of coal.

(*ii*) the payment of a bounty by the adjustment of railway freights on export coal, and

(*iii*) the indirect subsidization of sea freights by extending this bounty to bunker coal utilized by ships carrying cargo coal to foreign ports and the employment of Government ships for carrying private cargoes of coal.

23. Whilst South Africa was thus following a systematic plan to promote the interest of her coal industry and organizing herself for the purpose, conditions in India became more favourable to her project. In July, 1920, an embargo was laid by the Government of India on the export of coal. The history of the embargo and its effect on overseas markets have been so well set out by the Coal Committee that I cannot do better than reproduce the two paragraphs in which they dealt with them (Annexure D). As part of the policy of the embargo, the rebate which was formerly granted by the railways on export coal was suspended, and at about the same time the railway freights on all coal were substantially increased. The result was that during 1922 and 1923, South African coal was paying practically the same freight, $75\frac{1}{2}d.$ = Rs. 4-11-6, for a distance of 241 miles as Indian coal was doing for a distance of 170 miles. Additional help was also received by the South African coal when in 1924 the sterling value of the rupee gradually rose from 1*s*. 4*d*. to 1*s*. 6*d*. With the rate of exchange at 1*s*. 6*d*. to the rupee, South African coal receives an indirect bounty of 3 shillings per ton on export. Taking Rs. 18 per ton, by way of illustration, as the c.i.f. price of Natal coal in Bombay in October and November, 1925, South African coal gets at 1*s*. 6*d*. exchange 27 shillings per ton, whereas at 1*s*. 4*d*. it would have got only 24 shillings per ton, a difference of 3 shillings per ton.

Contribution of Indian conditions to success of South African policy.

CHAPTER III.

Coal freights on the South African Railways.

South African Railway Tariffs—Domestic coal.

24. The South African Railway Administration has, like other railway systems, different railway tariffs for different kinds of railway traffic. Its mileage rate is a telescopic one, that is to say, the rate per mile for each ton carried diminishes as the distance for which that ton is carried increases. In the Official Year Book of the Union of South Africa No. 7, for the years 1910 to 1924, a list is printed at page 707 in which the mileage rates are given for ten different classes of commodities. Among them coal used in South Africa, which will hereafter be referred to as "domestic coal," is ninth on the list and the freight upon it, which will be referred to as the "domestic freight," is lower than the freight levied on any commodity in the list except bricks, stone and mining poles and lime. The freight charged on domestic coal is as follows:—

(Per ton of 2,000 lbs.)

50 miles.	100 miles	250 miles.	500 miles.	750 miles.	1000 miles and any distance over 1 000 miles.
s. d	s. d	s d	s d.	s d.	s d
5 4	7 4	11 8	15 3	18 5	20 0
1 28d *	88d *	56d.*	·37d.*	29d.*	·24d.*

* Per ton per mile.

South African Railway tariffs—Exports other than coal.

25. There are also special railway rates for export traffic in certain commodities other than coal. The following is a table containing these rates:—

(Per ton of 2000 lbs.)

Commodity.	100 miles.	200 miles.	300 miles.	500 miles.	1000 miles.
	s. d.	s. d.	s. d.	s. d.	s. d.
S. A. Maize, Maize meal, Lucerne Hay, Lucerne meal and Forage.	8 4	10 0	10 0	10 0	10 0
	1·00d.*	·60d.*	·40d.*	·24d.*	·12d.*
S. A. Fruit	15 0	20 0	20 0	21 0	25 0
	1·80d.*	1·20d.*	·8 d.*	·50d.*	·30d.*
S. A. Tobacco	10 0	15 10	21 0	28 0	34 6
	1·2d.*	·95d.*	·84d.*	·67d.*	·41d.*

* Per ton per mile.

(Per ton of 2000 lbs.)

Commodity.	100 miles.	200 miles.	300 miles.	500 miles.	1000 miles.
	s. d.	s. d.	s. d.	s. d.	s. d.
S. A. Minerals e.g., Antimony, Lead Ore, Corundum ore, Iron oxide, Talc powder and Manganese ore.	7 4	9 10	12 0	15 3	21 4
	·88*d*.*	·59*d*.*	·48*d*.*	·37*d*.*	·26*d*.*
Iron ore	3 8	6 5	9 3	14 9	21 4
	·44*d*.*	·39*d*.*	·37*d*.*	·35*d*.*	·26*d*.*
Crude asbestos, Copper and Tin ore, Graphite and Kieselghur.	7 4	9 10	12 0	15 3	21 4
	·88*d*.*	·59*d*.*	·48*d*.*	·37*d*.*	·26*d*.*

* Per ton per mile.

None of these rates is lower than the domestic coal rate except the iron ore rate for distances up to about 500 miles and the rate on maize for distances exceeding 200 miles. The rates on the minerals included in the table are the same as the domestic coal rates for all distances up to 500 miles. It may, therefore, be reasonably inferred that, even when special rates are fixed for the encouragement of the export of particular commodities, the South African Railway Administration do not find it possible to bring them below the level of the domestic coal rate.

South African Railway tariff—Bunker coal.

26. Bunker and export coal are separately classified (page 708 of the South African Year Book, 1910-24), and are charged special rates from each coalfield to the ports. A lump sum rate, it appears, is charged having regard, possibly, to the distance of the individual colliery from the ports. The rates for bunker coal and export coal have been identical, since 1922, but the railway tariff provides that, if any coal is exported to ports beyond South or South West Africa, a rebate at a fixed flat rate (for example 7*s*. 9*d*. per short ton in 1924) is to be allowed. Another fact, which calls for notice, is that, since the year 1920, the South African Railway Administration has levied a higher rate (though this was not so before the war) on bunker coal than on domestic coal. The reason for this may be that, owing to the geographical position of South Africa, ships entering a port, if they wish to bunker, as they in most cases must, will be prepared to pay a little higher price than the domestic consumer. The rate is higher but even so ships may find it cheaper to bunker in South Africa than elsewhere.

South African Railway tariff—Export coal.

27. When the rebate is deducted, the nett freight payable on export coal consigned to Durban or Delagoa Bay is approximately half the domestic rate for the same distance and is smaller per ton

mile than the export rate on any other commodity for the same distance. One further point of considerable importance has emerged from the examination of these figures. In all the earlier discussions of the South African Railway rebates, which I have seen, it has been assumed that the difference between the freight on bunker coal and the export coal (7*s*. 9*d*. per short ton in 1924) is the measure of the bounty paid by the South African Railway on export coal. This is hardly an accurate appreciation of the situation. The bunker coal for special reasons pays a higher freight, and the primary measure of the bounty is rather the difference between the freight on domestic coal and the nett freight paid by the export coal. It is upon this footing (subject to one qualification)* that the bounty has throughout this note been calculated, and is intended to be understood. The distance from Hattingspruit (which may be taken as the centre of the Natal coalfield) to Durban is 241 miles and the nett export freight payable in 1924 was 67½*d*. per short ton, while the freight on "domestic" coal for this distance is 134½*d*. The bounty in that year was therefore 67½*d*. per short ton or 50 per cent. of the ordinary freight, not 7*s*. 9*d*. per short ton as it was usually stated. Part of this amount thus given in rebates is recovered no doubt by the South African Government from the extra freight which it levies on bunker coal.

History of the rebate on export coal.

28. The rates charged at various dates on domestic, bunker and export coal are set forth in Annexure E and only a brief description of the various changes is necessary here. The figures are taken from the Official Year Books of the Union of South Africa Nos. 1 to 7 from 1916 to 1924, from the South African Coal Commission's Report and from the reports of the General Manager of South African Railways and Harbours for 1924 and 1925. The year 1916 is the earliest, and 1925 the latest for which I have been able to find official information, but the rates in force at the beginning of 1916 were apparently those which existed before the war, at any rate, as far back as 1913. To facilitate comparison with the Indian rates all the rates have been given per ton of 2,240 lbs. The changes made are as follows:—

(1) The domestic freight on coal for the distance from Hattingspruit to Durban (241 miles) was 11*s*. a ton until 1920 when it was raised to 12*s*. 7*d*. a ton, the rate still in force.

(2) The freight on bunker coal was 6*s*. 8*d*. a ton before the war, but from 1916 a surcharge of the same amount was imposed. This surcharge was raised to 11*s*. 2*d*. in 1917 and in 1918, a terminal tax of 6*d*. was added. The total freight in 1919 was therefore 18*s*. 6*d*. a ton.

(3) In 1920 the surcharge and terminal tax were abolished, but the freight on bunker coal was fixed at the very high figure of 23*s*. a ton. It was subsequently reduced to 15*s*. 5*d*. in 1921 and to 15*s*. in 1922.

**Vide* paragraph 31 below.

(4) The gross freight on export coal has been the same as the bunker rate (but without the surcharges and terminal tax) except in 1921 when it amounted to 17*s.* 1½*d.*

(5) The nett freight on export coal was 5*s.* 6½*d.* a ton till 1916, 6*s.* 8*d.* till 1920, 9*s.* 1*d.* in 1920, and has been 6*s.* 3½*d.* since 1921.

Points brought out by the figures in Annexure E.

29. The figures for the years from 1916 to 1920 have no particular significance for the shortage of shipping interrupted the free course of trade. The important points, which the figures bring out, are these—

(1) Up to 1916, the rebate (*i.e.*, the difference between the bunker rate and the nett export rate) was 1*s.* 1½*d.* a ton, but the bounty (*i.e.*, the difference between the domestic rate and the nett export rate) was 5*s.* 5*d.* a ton, or very nearly one half.

(2) Since 1922, the rebate has been 8*s.* 8*d.* a ton, but the bounty is only 6*s.* 3½*d.* a ton, which is again one half the domestic rate.

(3) The bunker rate, which, up to 1916, was lower than the domestic rate by 4*s.* 4*d.* a ton, is now higher by 2*s.* 5*d.* a ton.

Comparison of the Indian and South African freights on export coal.

30. The Indian and South African freights on export coal, before 1916 and from 1921 onwards, are compared in Annexure F. For South Africa the rate from Hattingspruit to Durban has been taken as representative, and for India the freight from Jharia to Calcutta. The following are the important points:—

(1) Before the war, the nett export freight from Jharia was Rs. 2-7-0 a ton and, as late as 1920, had not been increased.

(2) Up to 1916, the nett freight on export coal from Hattingspruit to Durban was higher than the freight from Jharia to Calcutta by Rs. 1-11-6 a ton. The rate per ton mile was also higher though the South African distance was the longer.

(3) In 1921, the ordinary freight from Jharia to Calcutta was increased and the export rebate was withdrawn, raising the nett export freight to Rs. 3-13-0 a ton. These changes coincided with a reduction in the South African export freight.

(4) In 1922, the freight from Jharia to Calcutta was again raised to Rs. 4-8-6 a ton and the nett export freight remained at that figure until the end of 1923. From the 1st January 1924, however, an export rebate of Re. 1 a ton was granted, and was raised to Rs. 1-8-0 in January 1926. The nett export freight is thus Rs. 3-0-6 a ton.

The advantage which the Indian Coal industry might have derived from these rebates, has been to some extent neutralised by the rise of the rupee sterling exchange during 1924 from 1s 4*d* to 1s. 6*d*.

(5) From 1921 onwards, the Natal export freight has exceeded the Jharia export freight by the following amounts.—

	Rs	A	P
1921	0	14	6
1922 and 1923	0	3	0
1924	1	3	0
1925	0	10	7
1926	1	2	7

(6) From 1921 onwards, the rates for export coal per ton mile have been as follows:—

	Natal (Hattingspruit)	India (Jharia)
	A	A
1921	0 31	0 36
1922 and 1923	0 31	0 43
1924	0 31	0 33
1925	0 28	0 33
1926	0 28	0 28

It will be seen that the Indian rate per ton mile was the higher until January 1926, and is now the same as the South African rates.

History of the railway rebates on bunker coal, 1920 to 1925.

31. The assistance given by the South African railways to the export coal trade does not end with the rebate on the export coal itself. Many tramp steamers, some of them in ballast, are attracted to South Africa, and freights on more favourable terms than would otherwise be possible, are, for that reason, available, but in 1920 the rates were apparently regarded as high enough to hinder exports, and the attention of the Government was drawn to the point by the South African Coal Commission. In order to attract more steamers to the South African ports and to secure lower freights at the same time, an innovation was made, as early as 1920, which, curiously enough, has escaped the attention not only of the Coal Committee but of the coal trade itself. Up to that time, the rebate had been paid only on export coal, but in 1920 it was granted also on coal bunkered by ships carrying coal from Union ports and Delagoa Bay to places overseas beyond South or South West Africa. In order to earn the rebate, the ships had, irrespective of size, to carry full cargoes of coal. In the case of the larger ships, particularly, this arrangement had its obvious drawbacks, and consequently gradual alterations were made in the regulations In 1921, the ships were allowed the rebate, if they carried a quantity of cargo equal to three-fourths or more of their carrying capacity. In 1922, a further change was introduced by which the rebate was payable if a ship carried 5,000 short tons of cargo coal, or a quantity equal to three-fourths of its

capacity, whichever quantity was less. This was a direct inducement to the larger ships to carry export coal. Whatever their extra capacity, they were entitled to claim the rebate on the whole of their bunker coal provided they carried not less than 4,464 tons of cargo coal. Thus a ship of the capacity of 15,000 tons would be able to obtain a rebate on its bunker coal three times as large as the rebate paid to a ship of 5,000 tons capacity, and one and a half times as large as that paid to a ship of 10,000 tons* and yet the 15,000 ton vessel need not carry a larger cargo of coal than the 10,000 ton vessel, for the carriage of 4,464 tons by either is sufficient to earn the rebate, while the 5,000 ton vessel must carry at least 3,750 tons of coal When it is recollected that, according to the report for the year 1924-25 on South African Railways and Harbours (page 110), 95 vessels of 10,000 tons and over—of which 19 were over 14,000 tons—entered the port of Durban alone, it is not unlikely that some of the larger ships were cargo steamers and that they picked up cargoes of South African export coal It is at any rate certain that the concession would not have taken the form it did unless substantial quantities of coal had been carried by vessels, with a capacity of 6,000 tons and upwards. It was not only the larger vessels, however, which benefited It is stated in the report above referred to that 245 steamers in ballast called at Durban alone for the loading of general cargo, cargo coal, etc It is very probable that a number of these vessels would be induced to carry the minimum quantity of cargo coal in order to earn the rebate on their bunker coal.

Difficulty of determining the quantity of bunker coal which receives the export rebate.

32 In 1925, according to the same report, the application of the rebates was extended to bunker coal taken for use on the return voyage to South Africa. The amount of the rebate thus paid would depend largely upon the length of the voyage, the size of the ship, the price of bunker coal at the ports of call, etc But the assumption underlying the concession clearly is that ships are likely to find it cheaper and more convenient on the whole to take as much extra bunker coal as possible from South Africa for the return voyage than to purchase it elsewhere. It is impossible to determine with any accuracy the quantity of bunker coal on which the rebate might be paid for any one voyage, or on the average, for there are many uncertain factors involved, and only an approximate estimate is possible Of the ports at which Indian and South African coal are in competition, the nearest to Durban is Aden and the most remote is Singapore The voyage to Aden would normally occupy 14 days, to Bombay, Karachi or Colombo about 17 days and to Singapore 23 days. The quantity of bunker coal on which the rebate was earned could hardly be less than the quantity sufficient for 14 days steaming and, owing to the limits of bunker capacity,

* It is assumed that the consumption of bunker coal varies according to the cargo capacity of the ship. This is in accordance with the information supplied by Messrs Mackinnon Mackenzie and Co. (see paragraph 33).

could hardly be more than the quantity sufficient for 28 days steaming. If every vessel carried sufficient bunker coal for 28 days steaming, then a vessel proceeding to Aden could earn the rebate on the whole of the bunker coal consumed in the outward and return voyage, if to Bombay, Karachi and Colombo, for the outward voyage and nearly two-thirds of the return voyage and if to Singapore, for the outward voyage and nearly a quarter of the return voyage. On the average, however, the rebate could not be earned on the bunker coal required for 28 days steaming, for many vessels would not return direct to South Africa.

Effect of the rebate on bunker coal in certain typical cases.

33. The extent to which the export trade is assisted by the grant of the rebate on bunker coal can be illustrated by a number of typical cases. From information kindly supplied by Messrs. Mackinnon Mackenzie and Company, it appears that a ship of 5,000 tons capacity steaming 10 miles an hour would consume in a day from 25 to 30 tons of coal and a ship of 10,000 tons capacity, 50 to 60 tons. The same firm has also given the distances from Durban to certain eastern ports. On the basis of these figures Annexure G has been compiled. The three cases taken as typical are:—

(1) A ship of 5,000 tons capacity carrying a full cargo of export coal,

(2) A ship of the same capacity carrying a three-fourths cargo, and

(3) A ship of 10,000 tons capacity carrying a cargo of 4,500 tons.

In each case the saving in the cost of bunker coal has been calculated (*a*) for the outward voyage to Bombay, Karachi, Colombo and Singapore, (*b*) for a voyage of 21 days, which in the case of the first three ports, would cover also part of the journey back, and (*c*) for a voyage of 28 days. It will be seen that the additional bounty varies from 7*d*. a ton in the case of a ship of 5,000 tons capacity with a full cargo carrying coal to Bombay and not returning direct to South Africa, to 2*s*. 2*d*. a ton in the case of a 10,000 ton ship with a cargo of 4,500 tons of coal and carrying enough bunker coal for a 28 days voyage. In Annexure G the concession in respect of the bunker coal has, for the reasons explained in paragraph 27, been taken, not as the full amount of the rebate, but as the difference between the domestic freight and the nett export freight.

Additional bounty on export coal resulting from the rebate on bunker coal.

34. The grant of the export rebate on the bunker coal of vessels carrying export coal is in effect an additional bounty on the export coal itself, because it makes it possible for the steamship companies to quote lower sea freights. It is difficult to deduce from the varying figures in Annexure G what the amount of the additional bounty may be on the average,

and an attempt can only be made on broad lines. The percentage relation of the bunker coal on which the rebate is paid to the cargo coal carried varies from 9·3 to 34·2, and it may not be very wide of the mark to take 20 per cent. as the average figure. Without exceeding that percentage a ship with a full cargo could make a voyage of 37 days, or with a three-fourths cargo 27 days, while a vessel of 10,000 tons capacity with a cargo of 4,500 tons could make a voyage of 18½ days. It does not seem possible to make a closer estimate and on that basis the amount of the additional bounty is 1*s.* 3*d.* a ton making the total bounty 7*s.* 6½*d.* per ton.

Recovery of part of the bounty on export coal, through a higher freight on bunker coal.

35. In estimating the assistance which the South African export coal trade receives from the South African Government there is one more factor which requires consideration. It has already been pointed out (paragraph 27) that part of the bounty on export coal (*i.e.*, the difference between the domestic freight and the nett export freight) is recovered through the higher freight on bunker coal which exceeds the domestic freight by 2*s.* 5*d.* a ton. The quantity of coal bunkered at South African ports annually is on the average the same as the quantity exported, and if the quantity of bunker coal carried at the export rate is 20 per cent. of the coal exported, it is also 20 per cent. of the coal bunkered. It comes to this, therefore, that for every ton of coal exported, four-fifths of a ton of bunker coal is carried at the bunker rate and one-fifth of a ton at the export rate. When these rates are compared with the domestic rate the gain and loss can be set off against each other. In brief, the calculation is as follows:—

	£	s.	d.
Loss of railway freight on a ton of coal exported .	0	6	3½
Loss of railway freight on one-fifth of a ton of bunker coal carried at the export rate . .	0	1	3
Gross loss of railway freight per ton of coal exported	0	7	6½
Gain of railway freight on four-fifths of a ton of bunker coal carried at the bunker rate . .	0	1	11
Nett loss of railway freight per ton of coal exported	0	5	7½

If the higher freight on four-fifths of the bunker coal is set off against the rebate on the export coal and one-fifth of the bunker coal, then the revenue sacrificed by the South African railways is reduced from 7*s.* 6½*d.* to 5*s.* 7½*d.* a ton. My colleagues take this view and consider that the bounty is 5*s.* 7½*d.* a ton. For reasons, which I have explained in my Report, I am unable to agree. In my view the bounty must be taken to be 7*s.* 6½*d.* a ton.*

**Vide* paragraph 9 of my report.

ANNEXURE A.

TABLE I.

Export of Indian Coal and Shipments of Coal from Calcutta to Indian ports.

(Referred to in paragraphs 4, 5 and 6).

(In thousands of tons.)

Year.	Exports.				Total exports.	Shipments from Calcutta to Indian ports.	Grand total of exports and shipments.
	The Far East.	Ceylon.	Aden and the Red Sea ports.	Other destinations.			
1911 . .	340	494	12	16	862	2,017*	2,879
1912 . .	269	579	13	33	899	2,237	3,136
1913 . .	300	426	5	26	759	2,324	3,083
Average 1911 to 1913 .	303	500	10	25	840	2,193	3,033
1921 . .	17	237	18	4	276	1,282	1,558
1922 . .	...	77	...	...	77	812	889
1923 . .	15	120	...	1	137	937	1,074
1924 . .	18	171	7	11	206	1,002	1,208
1925 . .	...	...	...	...	216	1,096	1,312
Average 1922 to 1924 .	11	123	2	4	140	917	...

* For official year.

ANNEXURE A.

Table II.

Exports of Coal from South Africa.

(Referred to in paragraph 2).

(In thousands of tons.)

Year.	Exports from South Africa to India.	Imports from South Africa into India.	Exports from South Africa to Ceylon.	Imports from South Africa into Ceylon.	Exports from South Africa to the Far East.	India, Ceylon and the Far East.	To Aden and the Red Sea ports.	To other destinations.	TOTAL.
1	2	3	4	5	6	7	8	9	10
1911	...	19	...	3	...	...	...	...	74
1912	...	176	...	10	...	...	...	...	149
1913	...	246	...	65	..	...	...	...	764
Average 1911 to 1913	...	147	...	26	...	...	...	...	329
1921-22	...	464	...	193	...	1,209	...	...	1,577
1922-23	440	393	283	196	242	965	129	...	1,271
1923-24	497	398	270	175	415	1,182	349	...	1,776
1924-25	387	327	316	232	504	1,207	379	...	1,730
Average 1922 to 1924	441	373	289	201	387	1,118	286	...	1,592
1925	...	334	...	...	...	...	...	...	...

ANNEXURE B.

Pithead prices of Natal and Indian Coal

(Referred to in paragraph 11)

Year.	Indian coal, First Class Jharia.	Year	Natal coal. Per short ton.	Natal coal. Per long ton.	@ 1s. 4d.
	₨ a. p.		s. d.	s. d.	₨ a. p.
1913-14 . .	4 0 0	1913	6 1·83	6 10 7	5 2 8
1914-15 . .	4 0 0	1914	6 10 8	7 8·7	5 12 8
1915-16 .	3 12 0	1915	6 9 5	7 7 2	5 11 2
1916-17 . .	4 0 0	1916	7 4·77	8 3 4	6 3 4
1917-18 . .	3 8 0	1917	10 1 76	11 4 4	8 8 4
1918-19 . .	4 8 0	1918	10 5·1	11 8·1	8 12 1
1919-20 . .	5 6 0	1919	10 7·41	11 10·7	8 14 8
1920-21 . .	5 4 0	1920	12 3 4	13 9 1	10 5 1
1921-22 . .	6 8 0	1921	14 1·71	15 10 1	11 14 1
January 1923 . .	10 0 0	1922	9 2 8	10 4·1	7 12 1
November 1923 .	9 8 0	1923	7 10 7	8 10	6 10 0
January 1924 . .	9 0 0	1924	7 9	8 8	6 8 0 or 5 8 10 @ 1s. 5d.
November 1924 .	7 8 0				
November 1925 .	5 8 0	..	...	...	...

ANNEXURE C.

Extracts from South African Coal Committee's Report.

(Paragraph 10 of the South African Coal Commission's Report.)

The general excellence of Natal coal combined with the geographical position of Natal had the effect of establishing for it a good position in the trade for bunker purposes. The export of Natal coal was, however, restricted by the competition of British, Australian, Indian and Japanese coals. Although Durban may be nearer the eastern competitive areas than is Great Britain, the greater distance of the Natal collieries from the port coupled with insufficient railway facilities and the difficulty of finding a return cargo for ships engaging in this business militated against any extensive development of an export trade. The great world scarcity of coal during the war and after the war has, however, led to a fairly considerable demand for Natal coal in Aden, East Africa and other Indian ocean ports.

(Paragraph 20 of the South African Coal Commission's Report.)

The cost of production elsewhere owing to high wages must for some time remain high compared to the cost of mining coal in South Africa and must go a long way to counterbalance the advantages of short distance to the sea and the cheap rate on ships which have a return cargo to look forward to. The trade at the East African ports and Colombo should therefore almost be in the hands of the South African collieries, and a share of the trade at Singapore and other Eastern ports and South America may also reasonably be expected to fall to them.

(Paragraph 21 of the South African Coal Commission's Report.)

It is desirable, however, to consider what prospects there are of developing what may be termed South Africa's natural oversea markets. During 1920, of 1,394,793 tons shipped as export coal from Durban and Delagoa Bay over 300,000 tons were consigned to markets in which, under normal conditions, South African coal could not reasonably be expected to compete, *viz.*, Denmark, Sweden, France, Belgium, Spain, Algiers, Gibraltar, Greece, Italy and New Zealand. The bulk of the export coal was destined for ports on the East and West Coast of Africa, in the Indian Ocean and in South America which may reasonably be termed South Africa's "principal and natural" markets.

For purposes of comparison the tonnage shipped to these various zones in 1920 is given below:—

Country.	Shipped from South Africa during 1920. (Tons of 2,000 lbs.)	Estimated coal requirements based on the latest available information as to pre-war (*viz.*, 1913) coal imports. (Tons of 2,000 lbs.)
Egypt, Sudan, French Somaliland	456,000	1,828,000
Aden, Ceylon, Bombay, Straits Settlements . .	202,500	2,055,000
Eastern ports including Madagascar, Mauritius and Reunion.	167,500	86,000
West African ports	25,000	173,000
South America	199,000	6,223,000
	1,050,000	10,365,000

It will be seen that the countries, which South Africa might deem to be its markets, require something in the neighbourhood of 10,500,000 tons of coal per annum, towards which South Africa contributed 1,050,000 tons in 1920. It is not unreasonable also to anticipate that the development which is taking place both on the east and west coasts of Africa will also result in their coal imports being increased, unless these countries discover coal of their own. The point naturally arises as to the prospects of the South African collieries obtaining a larger share of the coal business of the countries mentioned.

ANNEXURE D.

Extracts from Indian Coal Committee's Report.

(Referred to in paragraph 23.)

Paragraph 7.

"The rapid expansion in the demand for coal after the war resulted in a very heavy strain on the capacity of the railways in 1919 and 1920. So large a proportion of the wagon supply of the country was taken up by coal traffic that trade in general was greatly hampered and many, especially the smaller, industries of India were suffering severely from the difficulty of obtaining coal. In July 1920, therefore, the Government of India, following the example of the United Kingdom and of South Africa, decided to prohibit the export of coal from India except under license with effect from July the 24th and to refuse, from September the 1st, the preference which had till then been given by the railways to bunker coal for Indian ports. The object of the latter measure was to economise wagons by diverting bunker coal intended for Bombay, Madras or Karachi from the all-rail route to that which had been followed before the war, when coal had been sent by rail to the Kidderpore docks and thence by coasting steamers to its destination. The prohibition of exports except under license was introduced partly to prevent India from being depleted of coal and partly to ensure that the supply of Indian coal by sea to Indian ports should not be hindered by the limited capacity of the Kidderpore docks. A rationing scheme was drawn up and, on the principle that supplies of Indian coal should be allowed only to important bunkering ports in the vicinity of India, exports were permitted on the following scale:—

	Tons per mensem.
Railway coal.	
Ceylon Government Railways	10,000
Bunker coal.	
Colombo	50,000
Aden	10,000
Sabang	5,000
Singapore	15,000

It should be emphasised that the scheme had the entire approval of the commercial community.

Five months' experience of the working of the scheme gave rise to grave doubts whether it had been sufficiently drastic. Stocks of railway coal diminished and the complaints of difficulties experienced by industries continued. The difficulties of the situation were enhanced by poor raising in the coalfields, which in 1920 were some 4½ million tons less than they had been in 1919, and by inadequate railway facilities for the transport of Bengal coal. As the available supplies of Bengal coal were not considered sufficient for Indian requirements and there appeared to be no possibility of effecting an immediate improvement in railway facilities,

the Government of India, after consultation with the commercial community, decided on further restrictions. They prohibited export to Sabang and Singapore from the commencement, and to Aden from the end of January 1921, but they allowed time for making other arrangements to Colombo which was more dependent than other ports outside India on Indian bunker coal. Exports were therefore allowed to Colombo on a diminished scale. Exports end of March, but were then entirely prohibited with the exception of supplies for the Colombo Gas and Water Company, and on a reduced scale, for the Ceylon Government railways. At the same time bunkering at Indian ports was restricted from the commencement of January 1921, steamers proceeding westwards being allowed supplies to carry them as far as Port Said and three days beyond it and those proceeding eastwards being restricted on similar lines. In April 1922, all restrictions on the export of cargo or bunker coal by sea to Customs ports in India were removed, but the shipment of coal out of British India as cargo was still prohibited except when made by the Crown, and the bunkering of vessels sailing to foreign ports continued to be governed by licenses issued by the Collector of Customs. The embargo was entirely removed from January 1st, 1923."

Paragraph 8.

"The inevitable result of the embargo was the disappearance of Indian coal from overseas markets for the time being. It has been suggested to us that one of the reasons why Indian coal before the embargo held a position to which it was hardly entitled on its merits was the inertia which makes established business relationships difficult to break and that, even if the embargo had not intervened, the profound dissatisfaction aroused by the quality of the Indian coal exported immediately after the war would have undoubtedly led, before long, to its complete disappearance from overseas markets unless the Bengal coal trade had meanwhile radically reformed its methods. Be that as it may, the quality and price of the supplies obtained by these markets from other sources, and especially from South Africa, after the embargo was imposed proved so satisfactory that the pre-war position has now been reversed and established business relationships are an obstacle to the reintroduction of Indian coal even in a market like Colombo where it once held a commanding position. In this connection mention must be made of the strenuous efforts which have been made in recent years by the South African coal trade to capture overseas markets. As a result of the labours of a Coal Commission appointed in 1920 by the Government of the Union of South Africa to enquire into certain matters concering the grading and pooling of South African coal, etc., action has been taken to prevent the use of any but the best coal for export or bunkering and to ensure the satisfactory condition of any coal so used. It must be recognized that their success has been such as to make the recovery of overseas markets by the Indian coal trade a task even more difficulty than its exclusion from them for two years must in any case have made it."

e per ton of 2,240 lbs.)

Year.	Railway freight on domestic coal. 241 miles.	Ra	Rebate on bunker coal burned by ships carrying cargo coal.	REMARKS.
1913	131·7 Ton mile ·55		*Nil*	...
1916	Do.	80 / pe	Do.	Except in 1921 the nett export rate is arrived at by deducting the rebate from the bunker rate.
1917	Do.	80 13	Do.	
1918	Do.	80 13 6 t	Do.	
1919	Do.		Do.	
1920	151·1 Ton mile ·63		ebate granted on coal bunkered by ships carrying a full cargo of export coal.	The bounty is arrived at by deducting the nett export rate from the domestic rate.
1921	Do.	Bun Exp	ebate granted on coal bunkered by ships carrying a cargo of export coal of not less than three-fourths capacity.	
1922	Do.		ebate extended to coal bunkered by ships carrying a cargo of not less than 5,000 tons of export coal whatever their capacity.	
1923	Do.		Do.	
1924	Do.		Do.	
1925	Do.		ebate extended to coal burned on return journey to South Africa.	

REPORT

OF THE

Indian Tariff Board

REGARDING THE

GRANT OF PROTECTION

TO THE

COAL INDUSTRY

CALCUTTA: GOVERNMENT OF INDIA
CENTRAL PUBLICATION BRANCH
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